



10 Shelley Street
Sydney NSW 2000

P O Box 887
Australia Square 1213
Australia

ABN: 51 194 660 183
Telephone: +61 2 9335 7000
Facsimile: +61 2 9335 7001
DX: 1056 Sydney
www.kpmg.com.au

CIRCULAR TO CREDITORS

CIRCULAR TO CREDITORS

12 June 2015

Dear Sir/Madam

BBY Holdings Pty Limited (Receivers and Managers Appointed) ACN 075 187 432
BBY Limited (Receivers and Managers Appointed) ACN 006 707 777
Broker Services Australia Pty Ltd ACN 074 976 364
BBY Advisory Services Pty Ltd (Receivers and Managers Appointed) ACN 102 761 008
SmarTrader Limited ACN 115 752 102
BBY Hometrader Pty Ltd ACN 134 838 207
("All Administrators Appointed")
("BBY Companies")

We refer to our appointment as Joint and Several Administrators of the BBY Companies on 17 May 2015 and our circular to creditors on 20 May 2015.

Second meetings of creditors

In accordance with section 439A of the Corporations Act 2001 (the "Act"), the second meetings of the BBY Companies have been convened to be held concurrently on **22 June 2015 at 2.00pm (AEST)**, and are to be held at:

Sydney Masonic Centre
Grand Lodge Room
66 Goulburn Street
Sydney, New South Wales
Registration: 1 hour prior to the meeting

We enclose the following:

- Report by Administrators pursuant to section 439A (4)(a) of the Act;
- Form 529 – Notice of meeting;
- Form 532 – Appointment of Proxy Form; and
- Formal Proof of Debt Form

Attendance in person/ webcast

To assist with registration creditors who wish to attend and/or vote at the second meetings are required to lodge a formal proof of debt and proxy form by post, facsimile or email to bbv@linkmarketservices.com.au by no later than **12.00 pm AEST on Friday 19 June 2015**.

Informal proofs of debt and proxy forms lodged in respect to the first meetings will not be admitted for voting at the second meetings.

If you plan to attend via webcast please register your interest in advance by contacting the BBY Companies hotline on 1300 306 230 or by emailing a request to bbv@linkmarketservices.com.au by no later than **12:00pm AEST on Friday 19 June 2015**. To enable orderly registration for the teleconference please attend 30 minutes prior to the meeting time.

Yours faithfully

Stephen Vaughan
Joint and Several Administrator

Form 529A

Regulation 5.6.12(6)

Corporations Act 2001

**NOTICE OF CONCURRENT MEETINGS OF
CREDITORS TO DECIDE THE COMPANIES FUTURE CONVENE PURSUANT TO
SECTION 439A**

BBY Holdings Pty Limited (Receivers and Managers Appointed) ACN 075 187 432
BBY Limited (Receivers and Managers Appointed) ACN 006 707 777
Broker Services Australia Pty Ltd ACN 074 976 364
BBY Advisory Services Pty Ltd (Receivers and Managers Appointed) ACN 102 761 008
SmarTrader Limited ACN 115 752 102
BBY Hometrader Pty Ltd ACN 134 838 207
("All Administrators Appointed")
("BBY Companies")

Notice is given that the concurrent second meeting of creditors of the BBY Companies, convened pursuant to Section 439A of the Corporations Act 2001, will be held concurrently on **22 June 2015 at 2.00 pm (AEST)**, and are to be held at:

Sydney Masonic Centre
Grand Lodge Room
66 Goulburn Street
Sydney, New South Wales
Registration: 1 hour prior to the meeting

If you plan to attend via webcast please register your interest in advance by contacting the BBY Companies hotline on 1300 306 230 or by emailing a request to bby@linkmarketservices.com.au by no later than 12:00pm AEST on Friday 19 June 2015. To enable orderly registration for the teleconference please attend 30 minutes prior to the meeting time.

AGENDA

1. To receive and consider a report by the Administrators about the Companies business, property, affairs and financial circumstances.
2. To consider the terms of a Deed of Company Arrangement, if one is proposed.
3. To consider, and if thought fit, approve the remuneration of the Administrators.
4. To resolve that:
 - a) That the Companies should execute a Deed of Company Arrangement; or
 - b) That the Administration should end; or
 - c) That the Companies be wound up; or
 - d) That the meeting be adjourned for a period of up to forty-five (45) business days.
5. If a Deed of Company Arrangement is approved, to approve the remuneration of the Deed Administrators.
6. If the Companies are wound up, to approve the remuneration of the Liquidators.
7. If the Companies are wound up, to consider appointing a Committee of Inspection.
8. If the Companies are wound up, to consider the early destruction of the books and records at the conclusion of the winding up; and

9. Any other business relevant to the meeting.

Dated this 12th day of June 2015



Stephen Vaughan
Joint and Several Administrator



cutting through complexity

BBY Limited

(Receivers and Managers Appointed) (Administrators Appointed)
ACN 006 707 777
And associated companies (see over page)

Administrators' report to creditors

Section 439A of the Corporations Act 2001

12 June 2015

BBY Holdings Pty Limited (Receivers and Managers Appointed) ACN 075 187 432
BBY Limited (Receivers and Managers Appointed) ACN 006 707 777
Broker Services Australia Pty Ltd (formerly Receivers and Managers Appointed) ACN 074 976 364
BBY Advisory Services Pty Ltd (Receivers and Managers Appointed) ACN 102 761 008
SmarTrader Limited ACN 115 752 102
BBY Hometrader Pty Ltd ACN 134 838 207
(All Administrators Appointed)
(“BBY Companies”)

Stephen Vaughan and Ian Hall
Joint and Several Administrators

KPMG
10 Shelley Street
Sydney

Glossary

ACN	Australian Company Number
Act	Corporations Act 2001 (Commonwealth)
Administrators	Stephen Vaughan and Ian Hall of KPMG
AEST	Australian Eastern Daylight Time
AFSL	Australian Financial Services Licence
AIMS	AIMS Financial Group
Agility	Agility Applications Pty Ltd
AMEX	American Express
ANZ	Australia and New Zealand Banking Corporation
AQA	Aquila Resources Limited
ARITA	Australian Restructuring, Insolvency and Turnaround Association
ARCC	Audit, Risk and Compliance Committee
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
BAS	Business Activity Statement
BBY Companies	BBY Limited and each of the 9 BBY entities listed below
BBY Group	Wider BBY corporate group of companies as set out in Appendix C
BBY	BBY Limited (Administrators Appointed) (Receivers and Managers Appointed) (the main trading entity)
BBYAS	BBY Advisory Services Pty Ltd (Administrators Appointed) (Receivers and Managers Appointed)
BBYH	BBY Holdings Pty Ltd (Administrators Appointed) (Receivers and Managers Appointed)
BBYHT	BBY HomeTrader Pty Ltd (Administrators Appointed)
BBYN	BBY Nominees Pty Ltd (Administrators Appointed)
BBYPN	BBY Protection Nominees Pty Ltd (Administrators Appointed)
BSA	Broker Services Australia Pty Ltd (Administrators Appointed) (the employment company)
OR	Options Research Pty Ltd (Administrators Appointed)
TN	Tibia Nominees Pty Ltd (Administrators Appointed)
STL	SmartTrader Limited (Administrators Appointed)
Bridge	Bridge Capital Advisors Pty Ltd
CBPL	Capital Based Position Limit
CMA	Client Money Account
Directors	Glenn Rosewall, Ken Rosewall and David Perkins
DIRRI	Declaration of Independence, Relevant Relationships and Indemnities
DOCA	Deed of Company Arrangement
ERV	Estimated Realisable Value
FEG	Fair Entitlements Guarantee
Firestone	Firestone Energy Limited
Ficema	Ficema Pty Ltd ATF Ficema Trust
FY12	Financial Year 2012 (1 July 2011 to 30 June 2012)
FY13	Financial Year 2013 (1 July 2012 to 30 June 2013)
FY14	Financial Year 2014 (1 July 2013 to 30 June 2014)
FY15 YTD	Period from 1 July 2014 to 30 April 2015

GBST	GBST Holdings Limited
GFC	Global Financial Crisis (economic downturn in 2007-2008)
GST	Goods and services tax
Iress	Iress Market Technology Limited
IT	Information technology
PAYG	Pay As You Go
PPE	Property, plant and equipment
PMSI	Purchase Money Security Interest
PPSR	Personal Property Securities Register
RATA	Report as to Affairs
Receivers	Receivers & Managers, Stephen Parbery and Brett Lord of PPB Advisory (on behalf of STG)
SAP	Accounting software
Saxo	Saxo Capital Markets
STG	St George Bank, a secured creditor

Contents

Glossary	3		
Contents	5		
1. Executive summary	8		
1.1 Report highlights	8		
1.2 Appointment	9		
1.3 Clients and creditors	9		
1.4 Investigations	9		
1.5 DOCA proposal	10		
1.6 Estimated return	10		
1.7 Liquidation and Committee of Inspection	11		
1.8 Questions	11		
1.9 Second meetings of creditors – 22 June 2015	11		
2. Introduction	12		
2.1 Appointment of Administrators and Receivers	12		
2.2 BBY Companies	13		
2.3 Objective of the Administration	14		
2.4 Purpose of this report	14		
2.5 First meeting of creditors	15		
2.6 Second meetings of creditors	16		
2.7 Statement of independence	17		
3. Background	18		
3.1 Statutory information	18		
3.2 Officers	18		
3.3 Shareholders	18		
3.4 Registered charges	19		
3.5 Management team	20		
3.6 Trading history	20		
3.7 Saxo	23		
3.8 Jefferies & Co	23		
3.9 Options clearing business	23		
4. Client monies	25		
4.1 Regulation of client monies	25		
4.2 Client pools at appointment	25		
4.3 Estimated position of client pools	25		
4.4 Potential shortfall	26		
4.5 Issues	27		
4.6 Basis for court applications	28		
5. Historical financial performance	30		
		5.1 Preparation of financial statements	30
		5.2 Income statement	30
		6. Balance sheet	32
		7. Statement by directors	35
		7.1 Report as to affairs	35
		7.2 Unsecured creditors (excluding clients)	39
		7.3 Reasons for financial difficulties – directors explanation	39
		7.4 Reasons for financial difficulties – Administrators opinion	40
		8. Conduct of the Administration	41
		8.1 Tasks undertaken	41
		8.2 Receipts and payments	43
		9. Statutory investigations	44
		9.1 Scope	44
		9.2 Information reviewed	44
		9.3 Limitations	44
		9.4 Books and records	45
		9.5 Offences and director duties	45
		9.6 The Aquila Transaction	45
		9.7 Saxo discrepancy transactions	46
		9.8 Facilitation account potential fraud	46
		9.9 Related party transactions	47
		9.10 Insolvent trading	48
		9.11 Voidable transactions	50
		9.12 Other investigations	51
		10. Estimated return from a winding up (liquidation)	53
		10.1 Funding available for liquidators recoveries	53
		10.2 Estimated returns from winding up	53
		11. Effect of Liquidation on classes of creditors	54
		11.1 Employees	54
		11.2 Trade creditors (including subcontractors)	54
		11.3 Clients	54
		12. Proposal for a Deed of Company Arrangement	56
		12.1 Timeline of DOCA proposals	56
		12.2 DOCA proposal terms	56
		12.3 Comparison of returns from a DOCA and liquidations	58
		13. Options available to creditors	59
		14. Administrators' Opinion	60
		14.1 Rationale for Administrators' Opinion	60

15. Remuneration	61
15.1 KPMG Restructuring Services guide to hourly rates	61
15.2 Administrators' remuneration to 22 June 2015	61
15.3 Liquidators' remuneration	62
15.4 Deed Administrators' remuneration (if DOCA approved)	62
16. Appendices	64
A. Instrument of Appointment	
B. Current directors	
C. BBY Group structure	
D. Directors RATA summary	
E. Estimated outcome statement	
F. Proposed Deed of Company Arrangement	
G. Declaration of Independence, Relevant Relations and Indemnities	
H. Creditor Information Sheet Offences, Recoverable Transactions and Insolvent Trading	
I. Approving Fees: A Guide for Creditors	
J. Remuneration Report	
K. Voluntary Administration: A guide for creditors	
L. Independence of external administrators: A guide for creditors	
M. Insolvency information for directors, employees, creditors and shareholders	

1. Executive summary

1.1 Report highlights

Appointment of Administrators on 17 May 2015

Stephen Vaughan and Ian Hall were appointed as Joint and Several Administrators of the 10 BBY Companies on Sunday 17 May 2015. The purpose of this report is to assist creditors in their decisions regarding the future of 6 of the BBY Companies (excluding BBYN, BBYPN, OR, and TN).

Preliminary investigation findings only

We are required to conduct investigations into BBY Companies' business assets and financial circumstances and present to creditors in this report our preliminary findings to date, inclusive of our recommendations. Our headline preliminary findings are as follows:

- As early as June 2014 there are indications of possible misuse of client trust funds.
- Since June 2014, misleading information was being provided to BBY's lender to support additional funding.
- The BBY Companies' financial records may not have been maintained in compliance with the requirements of the Corporations Act.
- There a number of related party transactions that require further investigation.
- The above and other findings lead us to conclude that the BBY Companies may have been insolvent since June 2014.

Client and creditor losses

We believe there will likely be a shortfall in client monies accounts in the order of \$10.0 million. We believe unsecured creditors of the BBY Companies are likely to receive distributions of between zero and 24 cents in the dollar.

Cause of failure

We concluded there were a number of factors that contributed to the failure of the business which includes: poor governance and an inadequate risk management framework, inadequate capital, trading losses and an inability of management to foreshadow and appropriately respond to a number of adverse events and margin calls.

Recommendations

It will take time to reconcile and return client monies and recover proceeds for the benefit of creditors. To do this we recommend creditors resolve to place BBY, BSA and BBYH into liquidation and to execute DOCAs for STL and BBYHT. We have sought leave of the court to extend the convening period for the remaining 4 BBY companies (mentioned above).

Next Steps

The second creditors meeting will be held on 22 June 2015 to determine the future of the BBY Companies. We will ask creditors to vote upon:

- our recommendations regarding the future of each company; and
- our remuneration.

1.2 Appointment

Stephen Vaughan and Ian Hall of KPMG were appointed as Joint and Several Administrators of each of the following ten BBY Companies at 11pm on Sunday, 17 May 2015:

- BBY Holdings Pty Limited (Receivers and Managers Appointed) (Administrators appointed) ACN 075 187 432
- BBY Limited (Receivers and Managers Appointed) (Administrators appointed) ACN 006 707 777
- Broker Services Australia Pty Ltd (Administrators appointed) ACN 074 976 364
- BBY Advisory Services Pty Ltd (formerly Receivers and Managers Appointed) (Administrators appointed) ACN 102 761 008
- BBY Nominees Pty Ltd (Administrators appointed) ACN 007 001 443
- BBY Protection Nominees Pty Ltd (Administrators appointed) ACN 007 001 710
- Options Research Pty Ltd (Administrators appointed) ACN 006 770 627
- Tibbia Nominees Pty Ltd (Administrators appointed) ACN 007 001 578
- SmarTrader Limited (Administrators appointed) ACN 115 752 102
- BBY Hometrader Pty Ltd (Administrators appointed) ACN 134 838 207

This is the Administrators' report to creditors pursuant to s439A of the Act. The purpose of this report is to assist creditors in their decisions regarding the future of the BBY Companies.

The BBY Group is an independent financial services group and stockbroking firm established in 1987 and majority owned by interests associated with non-executive director, Ken Rosewall and executive chairman, Glenn Rosewall. At the time of our appointment BBY Group operated from 6 locations around Australia and offices in New York and London with approximately 180 staff and contractors.

Our appointment followed a review of the BBY Companies by their directors amid concerns expressed about the ability of the BBY Companies to meet their financial obligations going forward. Voluntary administration is a statutory process designed to provide for the business, property and affairs of an insolvent company to be administered in a way that maximises the chances of the company, or as much as possible of its business, continuing in existence, or if that is not possible to provide for a better return for a company's creditors and members than if the company was immediately wound up.

At 7am on Monday, 18 May 2015 Stephen Parbery and Brett Lord of PPB Advisory were appointed Receivers & Managers over 4 of the BBY Companies (as noted above) including the main trading entity, BBY and assumed control of its business. The Receivers subsequently retired from BSA, the employment company, in the morning of 20 May 2015.

ASX Clear, the ASX clearing house for all shares, structured products, warrants and ASX Equity Derivatives, declared an event of default and BBY's participation in the ASX market, ASX Clear and Austraclear (the settlement facility used by BBY for cash settlements) was suspended. The Australian Securities and Investments Commission suspended the Australian financial services licences (AFSLs) held by BBY, BAS and STL. As a consequence, BBY effectively ceased trading shortly after the Receivers' appointment.

1.3 Clients and creditors

The position of BBY client is different to that of general creditors. Clients who have an entitlement to money held on trust in a CMA will have a direct claim to that entitlement. This is a claim as beneficiary of a trust, not as a creditor of BBY. However, to the extent that there are not funds available in the relevant CMA to pay out a client's entitlement in full, affected clients may have a contractual claim against BBY for the amount of any shortfall. This contractual claim would be a creditor claim.

Clients may also have a claim as a creditor in respect to any losses suffered as a consequence of BBY ceasing to trade, or open market positions being closed out by various counterparties.

To the extent any client losses remain to be determined for voting purposes at meeting of creditors of BBY clients will be treated as contingent creditors pending confirmation of their claim and permitted to vote.

Available assets and claims of various classes of creditors will be considered either on a discrete basis or 'pools', for example clients entitled to equities trust funds shall be pooled and treated discretely from futures clients and other creditors such as, secured creditors, employees and unsecured trade creditors. This is discussed further within this report.

1.4 Investigations

Section 438A(a) of the Act provides that as soon as practicable after an administration begins the Administrators must investigate a company's business, property, affairs and financial circumstances. We have conducted a preliminary investigation in order to provide creditors with information to assist them in understanding the circumstances of the administrations and to make decisions regarding the future of the BBY Companies. The results of our investigations are set out in section 9 of this report.

In the event of liquidation of one or more of the BBY Companies further investigations will be conducted and where appropriate any available courses of action may be pursued on behalf of clients and creditors in order to improve returns.

1.5 DOCA proposal

In accordance with section 439A(4) of the Act, the Administrators are required give creditors an opinion as to whether it would be in their interest for any of the BBY Companies to:

- execute a Deed of Company Arrangement (DOCA);
- end the administration and return control to the directors of those companies; or
- be immediately wound up.

We have received DOCA proposals from AIMS, which also acquired various assets of the BBY Companies by an asset sale and purchase transaction completed on 27 May 2015. The proposals relate to STL and BBYHT (a pooled proposal), BBYAS and the four nominee companies (BBYN, BBYPN, OR and TN under another pooled proposal). No proposal was received in relation to BBY. We have made an application to the Supreme Court of NSW to extend the convening period in respect of the four nominee companies. That application has been made for reasons including the following:

- we do not currently have access to the books and records of the nominee companies;
- we understand that the nominee companies (in particular BBYN) may hold assets as custodian or otherwise on trust for other parties, yet this does not accord with public records which indicate that BBYN may hold beneficial title to some assets;
- the creditors position in relation to BBYN has not been confirmed;
- AIMS have made a DOCA proposal in relation to the nominee companies, which given the issues outlined above, we are not in a position to consider from the perspective of creditors or to provide the opinion required by section 439A(4) of the Act in respect of the AIMS DOCA proposal.

Given the administrators' application, and the factors outlined above, this report does not address the AIMS DOCA proposal in respect of the four nominee companies. We will report separately to affected creditors in due course as required under the Act.

The two other proposals are discussed in section 12 of this report.

Whilst material to the creditors of those companies, the outcomes of the proposals will not have a material impact on creditors, including clients, of BBY.

Included in this report is our analysis comparing outcomes for creditors of the above companies under the proposed DOCAs and in the event that each of the companies are placed into liquidation and wound up.

In summary, we consider it is in the best interests of creditors that eligible creditors vote:

- to immediately wind up BBY, BBYPN and BSA;
- in support of the DOCA which has been proposed for STL and BBYHT; and
- against the DOCA which has been proposed for BBYAS and that BBYAS be immediately wound up.

We do not consider it is in the best interests of creditors that control of any of the BBY Companies revert back to the Directors.

1.6 Estimated return

Set out in sections 10, 12 and Appendix E are our calculations of estimated returns to the various classes of creditors and clients.

We appreciate that clients wish to have access to funds in CMAs returned as soon as possible. There are complex issues to be addressed which will require directions from court as well as completion of any recovery actions.

Unsecured creditors are estimated to receive between 0 and 24 cents in the dollar for BBY.

Employees of BSA will be able to claim against the FEG scheme managed by the Department of Employment if BSA's creditors resolve that BSA is wound up at the meeting.

We expect the process of recovering of any outstanding client funds, reconciling client positions and resolving an appropriate approach to dealing with claims of clients and creditors, including any court applications, will take a number of months. Any recovery actions that may be pursued in liquidation could take a longer period of time to resolve. We will also explore options where possible to provide interim distributions to clients.

A key issue which may influence the speed of any recoveries is whether there is any funding available to fund these recovery processes. In accordance with section 545 of the Act, liquidators are not obliged to incur any expenses in pursuing any recoveries unless there is sufficient funding available to indemnify them for doing so. The Administrators intend to approach a number of parties including ASIC to discuss funding options following the conclusion of the second meeting of creditors. The Administrators

are open to and would welcome the opportunity to discuss funding with any creditors or clients who may be interested in funding specific recovery actions

1.7 Liquidation and Committee of Inspection

During the Administrations, there were Committees of Creditors elected for BBY and BSA. At the second meeting, creditors of each company placed into liquidation can resolve to form a Committee of Inspection. If BBY is placed into liquidation we recommend that a Committee be formed in respect of BBY to assist in the liquidation process.

1.8 Questions

The Administrators welcome submission of any questions to be discussed at the second creditors meeting. These questions should be emailed to bbymarketservices.com.au with the subject header "Questions – 2nd creditors meeting". We will collate the questions and endeavour to answer them at the meeting.

1.9 Second meetings of creditors – 22 June 2015

Second meetings of creditors for each company will be held concurrently at 2pm AEST on 22 June 2015 at the Sydney Masonic Centre, Grand Lodge Room, 66 Goulburn Street, Sydney NSW 2000.

Creditors will have the opportunity at the second meetings to resolve whether:

1. The Companies should execute a Deed of Company Arrangement;
2. The administrations should end, or
3. The Companies should be wound up

Details of the second meetings are enclosed within this report. Please direct any inquiries to the BBY Companies hotline on 1300 784 494 or by email to bbymarketservices.com.au.

Dated: 12 June 2015

Stephen Vaughan & Ian Hall
Joint & Several Administrators

KPMG
10 Shelley Street
Sydney NSW 2000

2. Introduction

2.1 Appointment of Administrators and Receivers

Administrators

On the evening of Sunday, 17 May 2015 Stephen Vaughan and Ian Hall of KPMG, 10 Shelley Street, Sydney, NSW were appointed, pursuant to section 436A of the Act, as joint and several Administrators of each of the ten BBY Companies by their directors, following resolutions that each company is likely to become insolvent at some future time.

The Administrators, both registered and official liquidators and members of the Australian Restructuring, Insolvency and Turnaround Association, consented, prior to their appointment, to act as Administrators.

Voluntary administration is an insolvency procedure where the directors of a financially troubled company or a secured creditor with a charge over most of the company's assets appoint an external administrator called a 'voluntary administrator'. The role of the voluntary administrator is to investigate the company's affairs, to report to creditors and to recommend to creditors whether the company should enter into a deed of company arrangement, go into liquidation or be returned to the directors. The effect of the appointment of a voluntary administrator is to provide a company with 'breathing space' while the company's future is resolved.

While a company is in voluntary administration unsecured creditors can't begin, continue or enforce their claims against the company without the administrator's consent or the court's permission. After investigating the affairs of the company and forming an opinion on options available to creditors, the administrator must provide a report to creditors (this report) and call a second creditors' meeting to consider the future of the company.

Receivers

On Monday, 18 May 2015 Stephen Parbery and Brett Lord of PPB Advisory were appointed Receivers & Managers over 4 of the BBY Companies, BBYH, BBY, BBYAS and BSA by STG, a secured creditor. The Receivers assumed control of the business and assets of those companies including the main trading entity, BBY.

The Receivers' primary role is to collect, sell and otherwise deal with all assets which are subject to the secured creditors' security to repay the debt owed to the secured creditor. The receiver has no obligation to report to unsecured creditors about the receivership or to otherwise seek the consent of the Administrators before dealing with secured assets. However, that said, the Receivers have, and to our knowledge intend to continue to liaise with the Administrators from time to time and will periodically publish accounts regarding any returns they receive in the receiverships through ASIC as required by Part 5.2 of the Act.

From our discussions with the Receivers to date, we understand that they have been dealing with counterparties of BBY such as the ASX and other exchanges clearing houses and other the counter derivative counterparties. As a consequence of its insolvency, BBY was in default under its contractual relationships with such counterparties. In defaulting situations, it is up to the counterparty / clearing participants to determine their course of action to minimise risk and the ability of the Administrators or Receivers to influence this process is limited. A number of counterparties have chosen to close out the positions of BBY clients and are in the process of providing an accounting for this process.

Client monies do not form part of the charged assets under control of the Receivers. The Administrators will manage the CMAs as discussed later in this report.

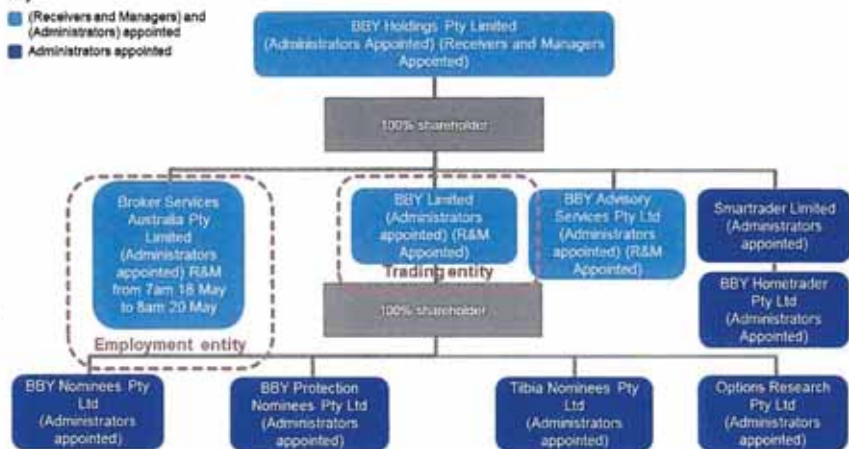
The Receivers subsequently retired from BSA, the employment company, on the morning of 20 May 2015.

2.2 BBY Companies

The BBY Companies corporate structure is set out below. The corporate structure of the wider BBY Group is set out in Appendix C.

Key

- (Receivers and Managers) and (Administrators) appointed
- Administrators appointed



Australian Financial Services Licences were held by BBEY, BBEYAS and STL. ASIC suspended these licences on 28 May 2015.

The BBEY Companies in Administration are discussed further below.

BBEY Holdings Pty Ltd

BBEYH is a parent entity. The ultimate parent of the BBEY Group is BBEY Staff Holdings Pty Ltd.

BBEY Limited

BBEY is the main trading entity of the BBEY Group. BBEY provided a broad range of services to clients including asset management, broker dealer services, institutional sales and trading, private client advice, research and online trading. According to an information memorandum dated April 2015, BBEY had over \$2.0 billion in assets under administration, 86 private client advisors, 55,000 private client accounts (including 44,000 equity clients and 6,400 active options clients), 960 institutional investor and fund manager accounts, white label broker dealer relationships and was one of the fastest growing, full service stockbroking houses in Australia and New Zealand with an average of \$2.4 billion ASX equities turnover per month (15th by market share in Equities, 1st in Options).

As the main trading entity, BBEY would enter into contracts on behalf of, and acquire services which were used by, other members within the BBEY Group. To the extent that it has entered into contracts or otherwise acquired services for the benefit of other members of the BBEY Group, BBEY is entitled to be indemnified by the members of the BBEY Group who assumed those benefits. On this basis, BBEY is a creditor of each of the BBEY Companies for services or liabilities it has incurred on behalf of those companies for which it has not been paid to date. Further investigation are required to quantify these intercompany claims.

Broker Services Australia Pty Ltd

We understand that BSA acted as the main employment company for the BBEY Companies in that most (if not all) of the employees and contractors working for the BBEY Companies contracted with and were retained by BSA notwithstanding that they often worked for other entities who did not have their own employees or staff (such as BBEY, BBEYHT or BBEYN).

Whilst, we haven't been able to identify a written contract per se, we understand that BSA had ad hoc labour service arrangements in place under which BSA would allow its employees and contractors to work for other members of the BBEY Group in return for being indemnified by those companies for the wages and fees incurred by BSA in retaining those workers. On this basis, BSA is a creditor of each of the BBEY Companies for labour services it provided to these companies which have not been paid to date. Further investigations are required to quantify these indemnities which are the sole asset of the BSA.

Whilst there was a short period of time in which a number of employees continued to work for BSA and the BBEY Companies following the Administrators' appointment, all employees of BSA have now been made redundant and their employment has been terminated during the Administration.

Following their termination, many employees have taken up employment with AIMS, which also acquired various business assets.

Employees are entitled to claim against the Fair Entitlements Guarantee scheme managed by the Department of Employment in respect of outstanding priority employee entitlements such as leave entitlements and redundancy (amongst others).

BBEY Advisory Services Pty Ltd

The corporate finance business of BBEY was conducted via BBEYAS. We understand it does not hold any third party or client assets however we have not been able to verify the position due to the state of the records with the exception of a \$0.7 million sundry debtor. We understand \$0.3 million of this is due from a solvent related party, Jaguar Funds Management, which may be collectable, however management have not been able to substantiate this.

SmarTrader Pty Ltd & BBEY HomeTrader Pty Ltd

These companies offered remote access investment tools and investor training programmes. BBEYHT provided active traders and investors the use of Amnibroker trading simulator software, which included charting software, live trading platforms, trading simulator software, financial markets data and professional advice.

BBEY Nominees Pty Limited

BBEYN purportedly acted as a trustee or nominated custodian for BBEY clients on the following basis:

- International custodian accounts held through Jefferies & Co, Pershing Securities (subsidiary of the Bank of New York Mellon Corporation) and Interactive Broker;
- Domestic custodian accounts held through the GBST platform;
- Option accounts for the corporate finance business of BBEYAS, on behalf of clients and other BBEY Companies; and
- Placement accounts for BBEYAS, on behalf of clients or other BBEY Companies "house accounts".

The Nominee companies are subject to an unresolved issue relating to the construction of trust arrangements with external parties. We have been informed by employees that BBEYN holds assets on trust for BBEY clients and the BBEY Group, however we have been unable to substantiate this trust relationship from inspection of the company books and records or from discussions with Directors. We have identified approximately \$0.8 million of financial instruments held in the name of BBEYN. The default position, which we accept, is that the financial instruments are assets of BBEYN in the first instance until a trust relationship can be demonstrated by a purported beneficiary or from the company books and records.

BBEY Protection Nominees Pty Ltd, Tibbia Nominees Pty Ltd & Options Research Pty Ltd

Each of BBEYPN, OR and TN are apparently dormant, with no assets or liabilities.

2.3 Objective of the Administration

Part 5.3A of the Act, dealing with Voluntary Administration procedures, provides for the affairs of an insolvent company to be administered in a way that either:

- Maximises the chance of the company, or as much as possible of its business, continuing in existence, or
- If it is not possible for the company or its business to continue in existence, results in a better return for the company's creditors and members than would result from an immediate winding up of the company.

Given the appointment of Receivers and their control of the business and assets, our focus has been directed toward:

- Exploring interest in any proposals for a Deed of Company Arrangement that may result in preservation of parts of the business and provide a better return to creditors,
- Investigating the position in relation to client monies issues and communicating with clients and creditors, and
- Completing our statutory investigation into the affairs of the BBEY Companies and reporting to creditors.

2.4 Purpose of this report

We have been appointed as Administrators to 10 BBEY Companies within the wider BBEY Group. BBEYH was the holding company and BBEYL was the main trading entity. The majority of business activity was conducted through BBEYL which received revenue and

paid expenses on behalf of other companies. The other entities over which we have been appointed are subsidiaries of either BBYH or BBYL and there was a high degree of interdependence. Considering these circumstances and for the sake of practicality and efficiency, we have addressed the affairs of the 10 BBY Companies in this combined report. This report is prepared pursuant to section 439A (4) of the Act, to assist creditors of each of the BBY Companies (excluding the 4 nominee companies, BBYN, BBYPN, OR and TN) in their decisions concerning the future of the BBY Companies.

This report has been prepared drawing on a variety of sources including the BBY Companies books and records, publicly available information, Reports as to Affairs submitted by the three directors, Mr Glenn Rosewall, Mr Ken Rosewall and Mr David Perkins, discussions with the Receivers, the directors, staff, clients, suppliers, and other creditors as well as our own research. The records of the BBY Companies are unreconciled and in a poor state. This has significantly hindered our work and puts in doubt the veracity of much of the financial information presented in this report.

Notwithstanding these circumstances, we have strived for factual accuracy and precise analysis. The strict reporting timeframes prescribed under Part 5.3A of the Act mean that professional judgement must be exercised in relation to a balance between speed of reporting and the extent and nature of our investigations which are, in essence, only preliminary in nature.

We have not independently verified information presented in this report unless noted otherwise. Should creditors resolve to place the BBY Companies into liquidation, further investigations will be required into the conduct of the business, any possible breaches of the Corporations Act and avenues for recovery for clients and creditors, such as any possible claims in respect of trading whilst insolvent, preferential payments or voidable transactions.

We reserve the right to alter any conclusions reached on the basis of any further information which may become available to us between the date of this report and the date of the Second Meeting.

We recommend that creditors seek independent advice as to options available and also review the information sheets provided by ASIC, attached to this report and available on the ASIC web site at <http://asic.gov.au/regulatory-resources/insolvency>.

2.5 First meeting of creditors

The Administrators were required to hold a first meeting of creditors, pursuant to Section 436E of the Act, within 8 business days of our appointment. Concurrent first meetings for each company were held on Wednesday, 27 May 2015 at the Sydney Masonic Centre, Grand Lodge Room, and 66 Goulburn Street, Sydney.

The purpose of the first meetings was for creditors to determine whether to appoint a committee of creditors and if so, who would be the members. Creditors of BBY and BSA voted to form a creditors' committees, the membership of which are set out below.

Name	Creditor
BBY Limited	
Derrick Sutton	Derrick Sutton
Enzo Pirilo	Hamilton Capital Pty Ltd
Giles Woodgate	Suntag Pty Ltd
Mathew Haes	HUB24 Custodial Services Ltd
Nick Briscoe	Nick Briscoe
Patrick Salls	GBST Holdings Limited
Paul Biggs	Agility Applications Pty Ltd
Paul Dryza	Marshmallow Super Fund
Richard Howes	Richard Howes Pty Ltd
Broker Services Australia Pty Ltd	
Andrew Harrington	Indexys Pty Ltd
David Reynolds	Quay Equities Pty Ltd
Giles Woodgate	Suntag Pty Ltd
Nick Dacres-Mannings	Nick Dacres-Mannings
Samantha Mackin	Pixart Pty Ltd
Trent Mackie	Trent Mackie

Minutes of the first meetings have been lodged with ASIC and may be obtained by creditors directly from ASIC or by contacting this office.

The Administrators convened a meetings of the BBY and BSA Committees on 5 June 2015 to provide an update on developments and discuss issues, which are largely reflected in this report.

2.6 Second meetings of creditors

Section 439A of the Act requires that the Administrators report to creditors regarding the business, property, affairs and financial circumstances of the BBY Companies and provide our opinion on options available to creditors in relation to the future of each company. We are also required to convene second meetings of the BBY Companies' creditors. These are proposed to be held concurrently given the common affairs of the companies.

Purpose

At the second meetings the Administrators' report will be presented along with any further information relevant to the meetings. Creditors will be given the opportunity to consider and discuss alternatives available to them. Creditors may resolve one of the following in respect to each company:

- That the company execute a Deed of Company Arrangement (where one is proposed)
- That the administration end (and therefore control reverts back to the directors)
- That the company be wound up (placed into liquidation).

How you vote at the meeting on the three possible options is a commercial decision for you based on your assessment of the company, the appropriate course of action and your personal circumstances. The information provided by the Administrators, including opinions expressed, will assist you. However, you are not obliged to accept our recommendation.

Creditors may also resolve to adjourn the second meetings for a period of up to 45 business days.

Further information on the meetings and voting is set out in the ASIC information sheet No 74, Voluntary administration: A guide for creditors.

Time and place

The second meetings have been convened to be held concurrently on 22 June 2015 at 2.00 pm (AEST), and are to be held at:

Sydney Masonic Centre
Grand Lodge Room
66 Goulburn Street
Sydney, New South Wales
Registration: open from 1 hour prior to the meeting

Webcast facilities

If you plan to attend via webcast please register your interest in advance by contacting the BBY Companies hotline on 1300 784 494 or by emailing a request to bby@linkmarketservices.com.au by no later than 12:00pm AEST on Friday 19 June 2015. To enable orderly registration for the webcast please attend 30 minutes prior to the meeting time. Please contact Link for details of the webcast.

Documents for the meetings

The following documents are attached with this report in relation to the second meeting:

- Notice of Meeting of Creditors
- Appointment of a Proxy
- Formal Proof of Debt

To assist with registration creditors who wish to attend and/or vote at the second meetings are required to lodge a formal proof of debt and proxy form by post, facsimile or email to bby@linkmarketservices.com.au by no later than **12.00 pm AEST on Friday 19 June 2015**.

Informal proofs of debt and proxy forms lodged in respect to the first meetings will not be admitted for voting at the second meetings.

2.7 Statement of independence

Enclosed with our circular to creditors, dated 20 May 2015, was the Administrators' Declaration of Independence, Relevant Relationships and Indemnities (pursuant to section 436DA of the Act and the ARITA Code of Professional Practice).

An updated DIRRI was provided to creditors at the meetings on 27 May 2015 which noted that:

- AIMS is an audit client of KPMG. AIMS had been in negotiations to purchase the BBY Companies prior to the companies being placed into administration and receivership. After our appointment, we entered into discussions with AIMS regarding a prospective sale and recapitalisation of the Companies via the voluntary administration process, including possible DOCA proposals, in the event that the assets were not sold by the Receivers. We and the AIMS Group have had independent legal advice throughout those discussions and have dealt at arms' length with each other.
- In the course of our discussions with AIMS Group, AIMS Group Financial Service Pty Ltd (AFG) made a limited recourse loan of \$500,000 to Stephen Vaughan in his capacity as Administrator, in return for a period of exclusivity, for the specific purpose of funding wages and other costs and expenses that may be incurred during the week following the appointment of the Administrators and to allow time for a possible sale agreement to be agreed. The limited recourse loan also permitted a capped amount of remuneration to be funded up to \$100,000, with remuneration being subject to creditor approval in accordance with the Act.

At the time of the updated DIRRI on 27 May 2015, sale negotiations were continuing between AIMS, the Receivers and the Administrators, and AIMS had indicated that it was considering proposing a Deed of Company Arrangement in respect of some of the Companies. Since that time certain business assets were sold to AIMS, as discussed later in this report, and AIMS has submitted 3 DOCA proposals in relation to several of the BBY Companies (also discussed later).

No further information has come to our attention that should be included in our DIRRI. A copy of the DIRRI is included with this report at Appendix G.

3. Background

3.1 Statutory information

Incorporation details of each company are summarised below.

Company	ACN	Date of Incorporation	Registered Office/ Principal Place of Business
BBY Limited	006 707 777	18 February 1987	Level 17 60 Margaret Street
Broker Services Australia Pty Ltd	074 976 364	1 August 1996	Level 17 60 Margaret Street
BBY Holdings Pty Limited	075 187 432	12 August 1996	Level 17 60 Margaret Street
BBY Nominees Pty Ltd	007 001 443	15 June 1988	Level 17 60 Margaret Street
BBY Protection Nominees Pty Ltd	007 001 710	15 June 1988	Level 17 60 Margaret Street
Options Research Pty Ltd	006 770 627	28 May 1987	Level 17 60 Margaret Street
Tibia Nominees Pty Ltd	007 001 578	15 June 1988	Level 17 60 Margaret Street
BBY Advisory Services Pty Ltd	102 761 008	8 November 2002	Level 17 60 Margaret Street
BBY Hometrader Pty Ltd	134 838 207	8 January 2009	Level 17 60 Margaret Street
SmartTrader Limited	115 752 102	12 August 2005	Level 17 60 Margaret Street

Source: ASIC Company Searches

3.2 Officers

At the date of administration the three directors of BBY, the main operating company, were:

- Glenn Rosewall
- Ken Rosewall
- David Perkins

Mr Glenn Rosewall was a director of the other 9 BBY Companies. Mr Ken Rosewall and Mr David Perkins were also directors of three other entities within the BBY Companies that were placed into Administration.

A full list of the directors of each company is included at Appendix B.

3.3 Shareholders

The largest shareholders in BBYH, which has a 100% shareholding in the remaining 9 companies placed into Administration, is summarised below:

Shareholder name	Ordinary shares held	Class	%
Ficema Pty Ltd	1,523,736	A	0.5%
BBY Staff Holdings Pty Ltd	66,518,364	A	20.1%
Olive Pacific Pty Ltd	258,079,484	A	77.9%
Jefferies & Company Inc	5,076,428	B	1.5%
Total	331,198,012		

Source: ASIC Company Searches

Ficema is owned by Ken Rosewall, Glenn Rosewall and Brett Rosewall each holding 33.33% in shares. BBY Staff Holdings Pty Ltd is 100% owned by BBY Staff Nominee Pty Ltd. Olive Pacific Pty Ltd is wholly owned by Ken Rosewall. Jefferies & Company Inc. hold Class B category shares, having previously held a minority stake in the BBY Companies.

3.4 Registered charges

PPSR records included the following registered security interests for each of the BBY Companies:

Schedule of Personal Property Security	
Registration charges	
BBY Holdings Pty Ltd	1
Westpac Banking Corporation	1
BBY Limited	29
ABN AMRO Clearing Sydney Pty Ltd	2
Westpac Banking Corporation	2
GBC/Fordigraph Pty Ltd	1
Konica Minolta Business Solutions Australia Pty Ltd	16
The Trustee for Oracle Commercial Trust	1
Neopost Finance Australia Pty Ltd	1
Macquarie Leasing Pty Ltd	1
Credit Suisse AG	5
Broker Services Australia Pty Ltd	1
Westpac Banking Corporation	1
BBY Advisory Services Pty Ltd	1
Westpac Banking Corporation	1
SmarTrader Pty Ltd	1
Stonebridge Securities Limited	1
BBY Hometrader Pty Ltd	0
Grand Total	33

Source: PPSR searches

STG, a division of Westpac Banking Corporation, provided intraday clearing financing facilities utilised by BBY in its capacity as a clearing participant for the ASX (authorised to clear trades through ASX's clearing house). The STG facilities were secured via cross collateralised charges over BBH, BBY, BAS and BSA. We understand the STG facilities were recently increased by \$6 million in order to support additional capital requirements of the ASX relating to the options clearing business. We understand the gross debt owed to STG at the date of the administrations is in order of \$13 million.

Details of other PPSR registrations are discussed below:

- ABN AMRO – security interest over featherweight collateral including currencies, negotiable instruments and/or an ADI account
- GBC, Fordigraph & Neopost Finance – Other goods such as shredders
- Konica Minolta – photocopiers supplied to the offices
- Trustee for Oracle Commercial Trust - Lease agreement dated 9 February 2012 between South Sky Investments Pty Ltd (Receivers and Managers Appointed) (In liquidation) as landlord and BBY (as tenant) in respect of the landlord's fit out works and items of the tenant's fit out works paid for out of the landlord's contribution payment to the tenant – Level 5, 63 Pirie Street, Adelaide SA, 5000.
- Macquarie Leasing – motor vehicle lease
- Credit Suisse AG – margin provided under the terms of a futures execution and clearing client agreement
- Stonebridge Securities Pty Ltd – vendor finance on acquisition of the Stonebridge business by BBY in June 2011.

Pursuant to section 275 of the Personal Property Securities Act 2009, we wrote to each of these registered parties seeking particulars of possible claims and await their response.

3.5 Management team

Glenn Rosewall joined BBY in 2004 as Managing Director, CEO and a major stakeholder. In February 2012, he was appointed Executive Chairman of BBY. He was also Head of Institutional Sales, Head of Research and Head of Corporate. Mr Rosewall was a Chartered Accountant, a Master Stockbroker (Stockbrokers Association of Australia) and a member of the ASIC Markets Disciplinary Panel.

Ken Rosewall, a former world top ranking amateur and professional tennis player was a non-executive director.

David Perkins was non-executive director. He is also the principal of Perkins Solicitors and had an office in the BBY premises in Sydney. Mr Perkins acted as chair of the Audit Risk and Compliance Committee. After the departure of Mr Maharaj, Mr Perkins took over the company secretarial role.

Arun Maharaj, who had acted as the CFO and company secretary since 2005, was promoted to CEO in January 2012. In February 2015, Mr Maharaj resigned from BBY and officially completed his role on 20 March 2015. According to a director's questionnaire provided by Glenn Rosewall, and discussed in more detail later in this report, Mr Maharaj was the responsible executive for operations, finance, online, futures and FX. At the time of Mr Maharaj's resignation, two key members of the finance team also left BBY. From this time the most senior finance staff member was the Financial Controller, who had joined BBY in October 2014.

David Smith, a former head of BBY's equity capital markets, was recruited to BBY as CEO in April 2015.

3.6 Trading history

BBY is an independent Australian and New Zealand based financial services group and stockbroking firm that was established in 1987. Its focus was on institutional, corporate and high net worth clients until 2000 when a broader retail strategy was pursued. The BBY Companies operated from 6 offices in Australia which were located in Sydney (Head office), Melbourne, Brisbane, Gold Coast, Adelaide and Perth and four offices overseas in Auckland, Wellington, New York and London. At the time of the Administrators' appointment, there were approximately 160 staff and contractors.

Key business milestones are set out below.

Year	Description
1987	<ul style="list-style-type: none"> Formation of Burdett, Buckenridge & Young by a partnership of J. William Burdett, Graham Buckenridge and Peter Young, in conjunction with the State Bank of Victoria
1991	<ul style="list-style-type: none"> Acquisition of State Bank by the Commonwealth Bank of Australia saw the disposal of their interest in BBY Jefferies & Co acquired equity stake in BBY
2004	<ul style="list-style-type: none"> New management team appointed, led by Glenn Rosewall Strategic alliance with Jaguar Advisory Services and Alchemy Corporate Advisors
2005	<ul style="list-style-type: none"> Acquired Jaguar Asset Management Ltd
2009	<ul style="list-style-type: none"> BBY Board committed to retail client expansion Underwrote a \$25 million issue of convertible notes in Firestone Energy
2010	<ul style="list-style-type: none"> Averaged over \$150 million per day in equity volume, making BBY the fourth largest domiciled stockbroker in Australia Opened offices in Adelaide, Perth and the Gold Coast Acquired StoneBridge Group private client network
2011	<ul style="list-style-type: none"> Expanded product range to include CFDs, FX, Futures, Contract Options and Physical Precious Metals BBY began self-clearing with GBST platform Moved to multi-markets (Chi-X)
2012	<ul style="list-style-type: none"> Offering Fixed Interest products to Clients Acquired Cameron Stockbrokers BBY entered partnership with Enclave Capital LLC and forms BBY Enclave as a US licensed entity
2013	<ul style="list-style-type: none"> Acquired a majority stake in Edge Capital and opened offices in Auckland and Wellington. Became Australia and New Zealand's largest independent stockbroker
2014	<ul style="list-style-type: none"> Became the first broker to commence trading on the Asia Pacific Stock Exchange Launched BBY China Desk Launched MDA Service in Australia and New Zealand Fined \$90,000 by ASIC for not having adequate computer systems to monitor trades by advisors Saxo terminated partnership with BBY in CFDs, futures and retail FX trading markets

2015

- BBY's Tenth Office Opened in Brisbane
- Fined \$180,000 by the ASX disciplinary panel over inability to meet margin obligations on a trade in Aquila Resources in June 2014
- Swiss National Bank withdrew its currency cap resulting in BBY having obligations to cover significant losses on behalf of clients of approximately \$2 million

Source: BBY Limited Information Memorandum, ASX Report, management interviews, Sydney Morning Herald, The Australian

Some of the key trading milestones and operational issues are discussed further below:

Firestone Energy

Firestone is an exploration and development company listed on the Australian Stock Exchange and Johannesburg Stock Exchange.

In September 2009, BBY agreed to underwrite a \$25 million capital raising involving the issue of convertible notes with a conversion price of \$0.04 per share. It is our understanding that the issue of the convertible notes was undersubscribed, which resulted in BBY assuming the shortfall. It is not clear how this was funded. This issue is being investigated.

We understand that BBY currently hold 588 million shares in the company through one or more of the BBY Companies and may control the second largest shareholding in Firestone Energy behind Waterberg Coal, with a 16.57% shareholding.

Our investigations have revealed that in 2014, 5,868,600 convertible notes held by BBY were sold to Ficema (Ken Rosewall) and GARF PL (Glenn Rosewall National Private Superannuation fund) at face value for \$1 per note in return for the forgiveness of Director loans.

Since 19 March 2015, Firestone has been suspended from trading after Waterberg Coal requested a voluntary suspension. This request was made to allow time to finalise a proposed third party funding arrangement to repay outstanding principal and interest totalling \$43 million to the Standard Bank of South Africa on 9 April 2015. An extension to the voluntary suspension was requested by Firestone Energy on 8 May 2015, in order to allow the company to secure funding. As at the date of this report the trading suspension had not been lifted.

Stonebridge Group and Cameron Stockbrokers acquisitions

On 13 June 2011 BBY acquired the private client advisor network, staff and product platforms of Stonebridge Group, the former Tricom Securities business, with 70 private client advisors specialising in equities and options trading, futures, FX, CFDs and derivatives. The acquisition increased BBY's headcount from 87 to 185 employees. BBY had previously only operated in the Sydney and Melbourne markets within Australia. This acquisition signalled BBY's entry into the Perth, Adelaide and Gold Coast markets.

In August 2012 BBY acquired Cameron Stockbrokers, which added a further 32 private client advisors under BBY's operations.

Aquila Resources

On 11 June 2014, BBY acquired shares in AQA on behalf of a client, valued at \$192 million and BBY had this position registered in its name as the clearing participant. The share price fell resulting in a loss in the mark to market value of BBY's position in AQA. BBY was unable to meet ASX margin calls relating to the Aquila transaction and other exposures and requested that ASX delay the calls to avoid BBY committing an event of default and suffering a possible insolvency event.

As a consequence, the ASX imposed conditions on BBY's continued ASX participation and required an independent report on the adequacies of BBY's risk management systems, processes and personnel to prevent a similar future recurrence. BBY was also fined \$180,000 by the ASX in January 2015 in relation to this transaction as a penalty imposed under the ASX operating rules.

The Aquila transaction is discussed further later in this report in the context of client monies and our investigations.

ASIC infringement notice penalty

In September 2014 BBY paid a penalty of \$90,000 to comply with an infringement notice given to it by ASIC's Markets Disciplinary Panel. The penalty was for misconduct and for failing to ensure that its Automated Order Processing system had in place organisational and technical resources and safeguards required to avoid undermining public confidence in the integrity of the market.

The misconduct alleged by ASIC had occurred over a period of approximately 8 months.

Lazorne report

In compliance with the ASX requirements, in October 2014, BBY commissioned Lazorne Group Pty Limited to conduct a review of the design, implementation and functioning of BBY's governance and risk framework. In a report dated 28 November 2014, Lazorne was of the opinion that the existing framework at BBY was not adequate or effective and made a number of recommendations to address these issues including establishing a new corporate governance and risk management structure, the appointment of a new independent non-executive director, more frequent Board meetings, revision of the ARCC, approval process for large orders, creation of a full time Head of Risk role, a more widely focussed risk management framework and a structured, regular and proactive compliance monitoring program. Lazorne also made reference to inherent conflicts of interest including the Chairman of the Board, Glenn Rosewall, acting as Head of Institutional Sales, Head of Research and Head of Corporate. It was noted BBY was majority owned by Ken and Glenn Rosewall via corporate structures and that David Perkins, in his capacity as a non-executive Director, was providing ongoing legal advice to the business and operated this legal business from the Sydney Head office of BBY.

Remediation plan

In February 2015, also under the ASX requirements, BBY engaged Lazorne to provide an oversight role in relation to a remediation plan. In March 2015 Lazorne provided observations in relation to the plan and raised concerns over a high number of interrelated projects underway, unclear project ownership, responsibilities, monitoring, reporting and escalation procedures, tight completion target time frames and a need for staff training. We understand a final version of the remediation plan was submitted to the ASX in March 2015.

ASX compliance review

The ASX also initiated an investigation on 7 December 2014 to review BBY's compliance with the reconciliation of client money requirements under ASX Clear operating rules. In an interim report dated 10 February 2015 the ASX identified a number of required actions to ensure BBY's compliance.

The ASX stated that BBY client monies were allegedly being used by BBY to meet daily margin obligations and that, for periods during each day, client monies were not being held in trust. It also stated a number of other deficiencies in relation to BBY management of client monies that represented breaches of ASX operating rules. It stated that "The apparent failings identified in this report are long-standing issues relating to BBY's Trust Account structure and processes" and that they were "matters that should have been within the scope of BBY's audit review." The ASX report also stated that BDO East Coast Partnership (BDO) had been the auditor of BBY since 2004 and that there had been no exceptions noted in the audit reports for the last 3 years to indicate that BBY was not in compliance with the relevant sections of the Act. The ASX required that the BBY directors should consider appointing a new auditor by 31 March 2015 and report on the outcome of their decision by 17 April 2015.

During the course of the ASX review in December 2014, the ASX became aware of allegations that BBY had insufficient funds to meet a \$13 million payment to Saxo Capital markets. The relationship with Saxo is discussed in more detail later in this section of the report.

During this particular investigation, the ASX's review of sample trust reconciliations identified what the ASX stated to be a number of potential breaches of the ASX Clear Operating Rules, the ASIC/ ASX Market Integrity Rules and the Corporations Act relating to the handling of client monies by BBY. The ASX issued a direction to BBY to immediately cease using client monies held in trust to fund intra-day payments to its payment provider for the purposes of repaying debts incurred by BBY for its daily cash market margin obligations.

Given its concerns, the ASX extended its review which led to identification of other issues of concern including BBY's management of counterparty risk, in particular aged debtors and options accounts, the number and value of client aged debtors, the funding practices of BBY, unusual treatment of transactions in a BBY nominee account, a number of options accounts appearing to trade to reduce margin obligations and BBY's general liquidity management practices. The ASX subsequently required that BBY provide a capital liquidity management plan ratified by the Board.

On 17 March 2015, as a result of concerns with BBY's January 2015 ASX monthly return, the ASX's counterparty risk assessment team commenced an onsite review into BBY's compliance with the capital reporting requirements. The preliminary findings of this review, which were outlined in a letter to BBY Directors dated 15 April 2015, identified concerns regarding BBY's resources, processes and compliance with the capital reporting requirements. These concerns were notified to Glenn Rosewall and David Smith on 9 April 2015, and included:

- Lack of experience and resource constraints in the finance team responsible for preparing the accounts and ASX return;
- Limited competency on Rule S1 capital calculations;
- Insufficient oversight of the functions performed by the finance team;
- Misrepresentation regarding the persons performing the capital return certification and lodgement activities;

- Inconsistent naming conventions or categorisation of general ledger accounts and book records;
- Lack of validation processes to source data;
- Deficient record keeping practices;
- At least 6 potential breaches of the ASX Clear Operating Rules, of which some had an impact on the capital liquidity ratio calculation;
- Inconsistent aged debtors oversight between operations and risk; and
- Errors identified in the data forming the basis of BBY's capital liquidity management plan provided to the ASX.

As a result of this, additional conditions were imposed on BBY for participation including the appointment, by 30 April 2015, of an accountancy firm approved by ASX Clear, to ensure that the accounts and returns provided to ASX Clear accurately reflect the company's accounts and financial position, that reconciliations of any client's segregated accounts and client's trust accounts maintained by the company are properly performed and that BBY maintains financial records which comply with the provisions of the Act.

3.7 Saxo

Saxo Capital Markets is an international online trading platform covering FX, CFDs, stocks, futures and other derivatives. In June 2012 BBY became a 'white label client' of Saxo utilising its trading system. In late 2013 Saxo began to require that it hold client monies for white label partners in order to manage risk. BBY was required to transfer client monies relating to Saxo in 3 tranches between April and December 2014, totalling approximately \$30 million.

Apparently BBY did not remit on time a final \$13 million tranche due in December 2014. In a letter dated 1 December 2014, Saxo asserted that BBY had not complied with a requirement to ensure its cash balance with Saxo was no less than the aggregate cash balance on all underlying accounts in the white label structure. As a result of this, Saxo terminated its contracts with BBY and informed the ASX, which apparently also informed the ASIC. In February 2015 BBY gave notice to its client base that all arrangements with Saxo would be terminated on 1 April 2015. From late February 2015 the client base utilising Saxo was run down and many clients moved to either Saxo or other brokers.

The loss of the Saxo relationship caused the Board to express concerns regarding the loss of revenue and funding. The BBY directors explored various options to raise funds including a short term standby credit facility of \$4 million from Ken and Glenn Rosewall and a \$5 million capital raising. The Board authorised preparation of an Information Memorandum to support a capital raising.

As the Saxo relationship ran off, there was a daily flow of client monies, largely during March 2015, back to BBY for distribution to clients. In the normal course, we understand these funds should have flowed through BBY's 'Saxo' client monies account and been remitted within the following 24 hours. At the time of our appointment it appears that there were over \$30 million in unreconciled Saxo transactions relating to the return of client funds. It has not been possible in the limited time available to us during the administration procedure to determine if all returned funds were distributed to clients. Pending further reconciliation work, there are indications that this may not be the case. This is discussed further in section 4 of this report.

3.8 Jefferies & Co

In 2011, Jefferies, an Investment Bank and BBYH minority shareholder, took legal action for "oppressive conduct" in relation to a deeply discounted offering of additional BBYH shares in order to raise approximately \$3 million. This offering was taken up by a related party associated with Ken Rosewall. The action was subsequently settled in mediation resulting in compensation being paid to Jefferies.

3.9 Options clearing business

We understand that during early 2015 the ASX had become concerned in relation to management of BBY's Options clearing business. On 7 May 2015 the ASX declared an event of default in relation to a failure to pay interim margin calls during trading. The ASX required that this business be wound down and imposed the following conditions:

- Payment of a \$2 million interim margin by the close of the RITS transfer system on 7 May 2015;
- Obtaining assurances of ongoing support from the BBY's lender, STG at a meeting on 8 May 2015; and
- The Company conducting an orderly exit from the market achieving a 50% reduction of risk within 2 weeks, 75% within 4 weeks and the balance within 6 weeks.

On 8 May 2015 BBY announced that it would exit the Options clearing business and that, effective immediately, BBY would not enter into any new Derivative Market Transactions which are cleared by BBY unless they are for the purpose of closing out open positions.

During the following week, prior to the administration, daily meetings were held between the ASX, BBY, its lender, STG and STG's advisors, PPB Advisory to monitor progress. We understand that at each meeting BBY was required to sign a statement confirming its solvency.

We are intending to review that documentation as part of our broader review of BBY's solvency position during the winding up of BBY, if resolved by creditors.

4. Client monies

4.1 Regulation of client monies

Section 981A and 981B of the Act provide that money received by an Australian financial services licence (AFSL) holder such as BBY must be placed into a special account, described for present purposes as a client money account (CMA). Associated provisions provide that money held in a CMA is to be held by the AFSL holder on trust for clients and the money may only be paid out of a CMA in certain specified circumstances.

The Corporations Act does not require that there be a separate CMA for each individual client. Rather, AFSL holders such as BBY commonly operate CMAs into which money of a number of clients is deposited.

4.2 Client pools at appointment

BBY maintained approximately 60 CMAs totalling \$11.1 million at the time of our appointment across different currencies and for different lines of business. The CMAs broadly fall into 5 product groups covering approximately 5,825 clients, including:

- Equities and exchange traded options (ETO's): 1,125
- Futures: 994
- Foreign Exchange: 706
- Saxo: 1,125
- Other (e.g. Carbon trading): unknown

Client Monies

The CMA were frozen upon our appointment except to allow receipts of further counter party funds. They will remain segregated for the purposes of subsequent adjudications on client entitlements and distributions. In due course it will be the responsibility of the Administrators and, if appointed, the Liquidators of BBY, to deal with client monies and to ensure that client entitlements to those monies are satisfied in accordance with applicable law.

"House" Monies

STG holds a security interest which attaches to all the present and after-acquired property of BBY. On 18 May 2015, STG enforced its security interest by appointing Receivers to BBY. Accordingly, all present and after-acquired property of BBY has from 18 May onwards been in the possession of the Receivers. Given this, we have not purported to deal with property which is in the possession of the Receivers and will not do so during their appointment.

Our understanding is that ASX and the Receivers take the position that certain monies currently held by ASX are "House" monies and are the subject of the security interest in favour of STG. We note that such "House" monies would vest in the possession of the Receivers once remitted by ASX to BBY.

4.3 Estimated position of client pools

The table below shows a summary of client trust obligations and indicated net surpluses or shortfalls in funds based on a comparison between bank balances and respective Dealer Reports for each product.

We understand there are also additional funds from counterparties which are likely to flow to client accounts at some point in the future, however the quantum and allocation of these funds is yet to be determined. These funds relate to:

- The payment of the net amount of cash margin held in respect of BBY's client-related derivatives accounts which the ASX have confirmed to be \$3.4 million (the distribution of these funds however will be subject to the comments made below in relation to "Calculation of entitlements")
- Counter party balances of \$1.8 million with ABN Clearing House and \$1.8 million with ADM Clearing House

It is important to note that, due to the poor state of the financial records, in order to establish a more accurate view of any surplus or shortfall of client monies, further detailed work will be required, potentially including a full reconstruction of the financial accounts.

Product	Equities	Futures	FX	Saxo	Other	Total
Client Account Balances	8,753	818	1,395	90	247	11,102
Counterparty balances at 15 May 2015						
ABN AMRO	-	1,800	-	-	-	1,800
ADM	-	1,803	-	-	-	1,803
Client Trust Obligations (Dealer Reports)	7,154	13,287	2,389	NQ	1,937	24,777
Estimated Surplus/(Shortfall) For Trust Claims	1,599	(9,076)	(994)	NQ	(1,690)	(10,072)
% in Cash	122%	0%	0%	NQ%	13%	59%
Allocation still to be determined						
ASX - cash margin for BBY client related derivatives	3,400	-	-	-	-	3,400

NQ: Not quantified due to state of records

Note: Excludes impact (yet to be determined) of ASX & Receivers authorized distribution of \$2.8m to clients on 18 May 2015

Source: BBY Bank Statements, BBY Management Information, BBY Trust Ledgers and Client Reports

The above table groups various CMAs into different "product pools" for illustrative purposes only. Please note, that the balances of individual CMAs within the above "pools" may vary, and any "pooling" of CMAs, whether along the above lines or otherwise, will require an application to Court as described in section 4.6 below.

We note that the Dealer Reports varied significantly (generally showing much higher obligations) in comparison to Trust Ledgers in the BBY accounting records. Our view is that the accounting records appear to be incorrect.

The table above includes a note relating to a distribution of funds made by the Receivers on 18 May 2015. On the morning of 18 May 2015, we understand that the ASX permitted transactions scheduled for settlement to settle and paid approximately \$2.8 million to BBY under that batch settlement. During the afternoon of 18 May 2015, we understand that the Receivers paid those funds to some clients. We were notified by the ASX that evening and subsequently met later that evening with the ASX and Receivers. Subsequently, we have corresponded with both ASX and the Receivers, in relation to, among other things:

- noting, that there are potentially complex issues to resolve in the reconciliation of client segregated monies and trust accounts held by BBY as well as the collateral held on trust for clients;
- advising, that we intended to carefully review the entitlements of the different classes of clients, client monies and collateral before facilitating any payments to clients and that we may need to seek court directions on the proper allocation of funds and collateral between different client entitlements, before trust funds are paid to clients;
- asking, that the Receivers consider their position before making any further payments of monies held in trust for clients until that position has been reviewed and the client entitlements to funds determined; and
- foreshadowing that we would be seeking a full account of all dealings with client monies and collateral in due course.

We understand that there were no further distributions after 18 May 2015.

4.4 Potential shortfall

Based on the information provided in the above table, there is an indicated shortfall in client monies at the date of appointment in the vicinity of \$10 million not including any amounts relating to Saxo (the details of which are presently unavailable).

The potential reasons for the indicated shortfall in client monies include:

- The poor state of the financial records including unreconciled accounts across various product groups
- Apparent transfers of trust funds across various product groups
- Apparent transfers of trust funds to BBY general operating accounts
- An apparent transfers of trust funds to third parties.

These issues are discussed further below and in the investigations section of this report.

Futures

On 12 June 2014 the Futures position as per the Dealer Report materially reconciled to the Client Trust Ledger and the funds in the two clearing houses. The Ledger records a withdrawal, on 24 June 2014 of \$6.8 million. However the Futures Trust Account bank statement for this transaction showed that the transfer was made on 13 June 2014. The \$6.8 million was transferred into

another BBY trust account from which further withdrawals were made. The circumstances surrounding these transactions appear to relate to the Aquila transaction. These are discussed further in the investigations section of this report. As a result of the withdrawal a discrepancy arose between the Dealer Report and the Client Trust Ledger (and corresponding Trust Bank Account).

FX

We understand that the client trust ledger does not accurately represent BBY's total client obligations for FX products and it appears that the balance is materially understated.

The FX Dealer Report includes "House Accounts" which are generally used to facilitate foreign currency trades on behalf of clients. We understand from BBY employees and contractors familiar with trading of the FX products that there is a substantial amount of uncertainty regarding the correct balance of the House Accounts and that some portion of these could actually relate to clients. On this basis it appears client obligations could range between \$2.39 million (included in the above table) to \$3.56 million.

We were advised that there may be entries in the House Accounts that did not represent true underlying trades, possibly resulting in inflated reported trading volumes. Further investigation is being conducted to determine the level of client entitlements as well as to identify the correct amount of House Accounts. We are also examining other issues resulting to FX trading activity.

Saxo

When BBY terminated the relationship with Saxo in late 2014, we understand Saxo clients were instructed to either transfer or close their accounts. Saxo have indicated that from their records there are no client payments outstanding, however BBY cannot provide a figure to confirm outstanding client balances as there are \$32 million of journal entries which have not been processed.

We were provided with information to suggest there were a number of transactions, totalling \$4.3 million, involving transfers to other BBY trust accounts and operating accounts. In addition we understand that \$2 million may have been paid from the BBY Saxo CMA to Saxo to meet margin after a major market movement and that this was not recovered from the client. Taking account of these matters, it appears that there could have been a shortfall in the Saxo CMA in the order of \$6 million. It is not known whether obligations in relation to Saxo clients are outstanding or could for instance have been settled from other funds. A reconciliation process will be required to verify whether any obligations remain outstanding.

Other Product Pool

We understand the "Other Product" pool may relate to Saxo Omnibus and Interactive Broker accounts as well as Carbon Trading accounts. We have not completed our review of these accounts at the time of writing this report.

4.5 Issues

As described above there is not currently sufficient funds in the CMAs to pay out all clients' entitlements. Further, for reasons described below, the precise entitlement of each client to money in the CMAs is not currently clear.

It is worth noting that beyond the issues described above there are legitimate reasons why a CMA may at a particular time not hold sufficient funds in order to meet all client entitlements at a particular point in time. For example, section 981D of the Corporations Act permits money to be paid out of a CMA in certain circumstances to meet obligations incurred by the AFSL holder in connection with margining, guaranteeing, securing, transferring, adjusting or settling dealings in derivatives by the AFSL holder (including dealings on behalf of people other than the relevant client who deposited funds). BBY paid money to a number of derivatives counterparties in reliance on section 981D and various funds are expected to flow back as noted earlier.

Insolvency of an AFSL holder

Regulations 7.8.03(2)(b) and 7.8.03(5)(c) and (d) of the Corporations Regulations 2001 (Cth) (Corporations Regulations) together provide that if an AFSL holder appoints a voluntary administrator (as was the case with BBY), then client money held in a CMA is to be paid to each person entitled to be paid money out of the CMA in accordance with their "entitlement", and if there are insufficient funds in the CMA to do so, then in effect persons with a claim are paid out in proportion to their entitlement. No funds will flow to other creditors out of the CMAs unless all valid client entitlement claims have been paid out in full.

However, there are a number of issues which mean that the payment of money out of CMAs following the insolvency of an AFSL holder is not straightforward. Due to certain practical deficiencies in the relevant legislative provisions, guidance may be taken from a recent case in this area which the applicable Corporations Regulations were applied and a number of different viewpoints of different stakeholders in client monies were considered by the Supreme Court of NSW, namely *Re MF Global Australia Ltd (in liq)* [2012] NSWSC 994 (MFGA Decision).

4.6 Basis for court applications

Set out below is an overview of some of the key issues that may require the administrators to ultimately make an application to court before funds can be paid out of the CMAs to clients.

Pooling

In the MFGA Decision, Black J determined that the base position is that reg 7.8.03(6) of the Corporations Regulations, which regulates how money in a CMA is to be distributed on the insolvency of an AFSL holder, is to be applied to each separate CMA. That is, the funds in each CMA are paid out to clients having an entitlement to claim against that CMA. However, Black J also noted that:

This conclusion does not, however, prevent the court directing the liquidators that pooling is appropriate in a particular case, at least where there has been mixing of funds across the relevant accounts.

In the present circumstances, there appears to be evidence of transfers of funds between CMAs which may have had the effect that certain CMAs have a higher balance than would otherwise be the case, because they also contain funds transferred in from other trust accounts. This may indicate that the appropriate outcome is that affected CMAs be "pooled" together, so that one group of clients is not unfairly disadvantaged (and another group of clients unfairly advantaged). That was the outcome of the MFGA Decision (although that does not mean that the same outcome may occur in respect of BBY, which will depend on its own facts and the decision of the court).

Conversion of foreign currency to Australian dollars

BBY held CMAs in a variety of different currencies, including Canadian Dollars, Swiss Francs, Fijian Dollars, Great British Pounds, Hong Kong Dollars, Japanese Yen, Philippine Pesos, Singaporean Dollars, Thai Baht and SA rand. If some form of pooling is ordered by a court as referred to above, it may be that the only method by which this can practically be achieved is to convert relevant foreign currency balances into Australian dollars.

Calculation of entitlements

The calculation of client entitlements will not be straightforward. Many clients held open derivatives positions at the point in time when administrators were appointed, which have subsequently been closed out or are in the process of being closed out. In the ordinary course, had BBY remained solvent, the entitlement of its clients to funds in CMAs would be affected by the close out of open positions. For example, if a client's position was closed out at a loss, this would generally reduce that client's claim on trust funds by the amount of that loss.

However, in the context of the appointment of administrators, there is an argument to the effect that the entitlement of all clients should be valued as at the time the administrators were appointed, with open positions valued on a mark-to-market basis at that time. Such an approach would disregard the price at which positions may have subsequently been closed out.

We note that many clients have already expressed their opposition to such an approach. However, we note that this was the approach taken in the MFGA Decision, and if clients of BBY wish to propose alternate methods of valuing client entitlements this may ultimately need to be determined by a court.

Accounts with small balances

Because the relevant claims on CMAs are trust claims rather than creditor claims, it is not possible for small entitlements to be disregarded. This means that, without relief from a Court, it would be necessary for a client with an entitlement of \$0.01 to be paid their entitlement, even though the costs of doing so would far exceed the amount paid out and would correspondingly potentially deplete the funds available for other clients.

The administrators may make an application to Court to the entitlements of clients with very small entitlements where the costs of processing payment would materially exceed the amount to be paid.

Costs

The administrators have not to date withdrawn any amount from any CMA in respect of their costs of administering the CMAs. As a trustee, the administrators are not entitled to withdraw any money from the CMAs without a court order to that effect.

To the extent that other funds are available to facilitate the reconciliation of the CMAs and any necessary Court application, the administrators intend to use those funds to do so. However, it may be necessary for the administrators to seek an order that their costs and expenses directly incurred in the exercise of determining client entitlements to funds held in the CMAs are met from funds held in the CMAs for this specific purpose.

In any court application, all interested parties (including clients) will have an opportunity to appear and make submissions and the court will determine the matter with all information and the benefit of argument from all relevant stakeholders. Full disclosure of the court application and the orders being sought will be made to all clients and creditors, and any orders made by the court, would be made.

Court Application

Due to the complexity of the above issues, and the fact that the relevant funds are held on trust, it will likely be necessary for the administrators to apply to court regarding the distribution of funds held in CMA's to meet clients entitlements, should be calculated and how the money in the various CMA's should be dispersed as between clients.

Client dual status

Finally, BBY clients who have an entitlement to money held on trust in a CMA will have a direct claim to that entitlement. This is a claim as beneficiary of a trust, not as a creditor of BBY. However, to the extent that there are not funds available in the relevant CMA(s) to pay out a client's entitlement in full, affected clients may have a contractual claim against BBY for the amount of any shortfall which will be treated as an unsecured creditor claim against BBY. Given this, and the potential shortfall noted above, the administrators have determined to:

- admit all clients as contingent unsecured creditors of BBY for voting purposes at the second meeting of creditors; and
- given the continuing uncertainty in the calculation of those entitlements, the unquantified matters noted above, and the lack of reliable books and records noted elsewhere in this report, pending our review of informal proofs of debt lodged with us, make a just estimate of all clients' claims of \$1 for voting purposes at the meetings of creditors.

5. Historical financial performance

5.1 Preparation of financial statements

Financial statements were prepared on a consolidated group basis for BBYH. These statements were audited by BDO East Coast partnership.

Summarised below are the audited consolidated income statement based on records provided by the companies for the periods for FY13 and FY14 as well as unaudited management accounts for FY15 YTD based on trial balances at 30 April 2015.

Note the BBYH consolidated FY13 and FY14 statutory accounts were prepared for the wider BBY Group including companies that have not been placed into administration. BDO expressed an 'unqualified' audit opinion and no emphasis of matter for the FY14 accounts for BBYH.

Management accounts were maintained on SAP software at the head office and prepared on a monthly basis. Accounting records for the general ledger and management reports could only be provided to 30 April 2015. The FY15 YTD income statement relates only to the ten BBY Companies that were placed into Administration on 17 May 2015.

Based on our preliminary review to date, it appears the management accounts may contain material unreconciled items and are therefore incorrect.

5.2 Income statement

\$'000	Note	BBY Companies		BBY Group Audited	
		YTD FY15	FY14	FY13	
Revenue	a	39,099	44,779	39,764	
Other income	b	17,584	5,068	4,100	
Expenses					
Consultancy expense	c	(19,666)	(3,093)	(2,181)	
Transaction and information expense	d	(25,396)	(28,155)	(24,667)	
Employee benefit expense	e	(9,247)	(9,927)	(10,458)	
Occupancy expense	f	(2,322)	(2,437)	(2,220)	
Communication expense		(761)	(947)	(1,010)	
Depreciation and amortisation expense		(0)	(26)	(137)	
Travel and entertainment expense		(144)	(679)	(567)	
Legal and professional fees		(541)	(527)	(569)	
Insurance expense		(388)	(787)	(481)	
Finance costs	g	(680)	(1,043)	(539)	
Other expense		(468)	(153)	(219)	
Write off of leasehold improvements		-	-	(3)	
Impairment of trade receivables		-	(45)	(1,175)	
Loss on fair value through profit and loss financial assets		-	(41)	(1,585)	
Profit/(loss) before impairment & income tax		(2,932)	1,987	(1,947)	
Impairment charge					
Profit/(loss) before income tax		(2,932)	1,987	(1,947)	
Income tax (expense)/ benefit		-	(480)	20	
Net Profit/(loss) attributable to members of the parent entity		(2,932)	1,507	(1,927)	
Other comprehensive Income					
Gain on revaluation of available for sale financial assets (net of tax)			(54)	(190)	
Total Comprehensive Income attributable to members of the parent entity		(2,932)	1,453	(2,117)	

Source: BDO audited financial statements FY13 to FY14, unaudited trial balance YTD FY15

Commentary on each of the categories included in the income statement below:

- a) Revenue is derived mostly by BBY relating to commission and brokerage fees. Revenue for YTD FY15 had decreased slightly on an annualised basis due to the termination of the Saxo relationship in December 2014.
- b) Other income includes revenue from corporate advisory fees and interest income on term deposits. In YTD FY15 the significant variance relates to the treatment of an intercompany management fee with BSA. This fee is for funds paid by BBY during the year to BSA for all costs within this company. It should be noted there are inconsistent accounting entries as BBY treats part of this intercompany transaction as a loan receivable. At financial year end, the intercompany management fee is eliminated for statutory purposes.
- c) Consultancy expense includes general consulting fees for IT, projects and corporate advisory. In YTD FY15 the total consultancy expense of \$19.7 million included manual adjustments in BBY for \$8.5 million and BSA of \$9.5 million. This was in relation to internal management fee entries that were recorded in the general ledger.
- d) Transaction and information expenses include settlement fees on transactions and commission rebate expenses. Many of the costs within this category are variable and are consistent with the commission revenue earned by brokers at approximately 62-65% of revenue year on year.
- e) Employee benefit expenses include the fixed salaries of staff at each of the offices. The total level of staff numbers was consistent between FY13 to YTD FY15 at approximately 170 to 190 employees. During this period employee expenses did not vary greater than 10% year on year.
- f) Occupancy expense includes rent for each of the office locations, as well as rental outgoings. The majority of the cost was for Sydney and Melbourne. Current monthly rent was approximately \$0.2 million.
- g) Finance cost included interest expenses and bank charges on loans.

The BBY FY14 statutory accounts include an impairment charge of \$3.4 million for related party receivables in conjunction with the sale of \$7.8 million of Firestone Energy convertible notes to Ken and Glenn Rosewall, involving \$5.8 million consideration and a \$2 million reduction in director loans. We have not had an opportunity to investigate these transactions however consider they warrant further examination.

6. Balance sheet

Summarised below is the consolidated financial position based on records provided by the companies for the periods from FY13 to YTD FY15. We have presented FY13 and FY14 from the statutory accounts audited by BDO East Coast partnership. YTD FY15 has been prepared based on the unaudited trial balance numbers provided by the BBY Companies at 30 April 2015.

\$'000	Note	BBY		
		Companies	BBY Group Audited	
		YTD FY15	FY14	FY13
Current Assets				
Cash and cash equivalents	a	(10,762)	2,591	6,402
Trade and other receivables	b	75,137	60,178	59,376
Other financial assets	c	78	2,722	2,827
Other assets	d	2,739	1,335	133
Total current assets		67,192	66,826	68,738
Non-Current Assets				
Deferred tax asset	e	524	899	888
Other assets	f	458	462	245
Other financial assets	g	7	7,883	7,883
Total Non-current assets		989	9,244	9,016
Total Assets		68,181	76,070	77,754
Current Liabilities				
Trade and other payables	h	77,904	61,163	64,673
Borrowings	i	5,204	4,500	4,500
Provisions	j	7,433	1,025	892
Total current liabilities		90,541	66,688	70,165
Non-current Liabilities				
Deferred tax liabilities	k	-	3	3
Provisions	l	230	482	215
Borrowings	m	2,024		
Total Non-current liabilities		2,254	485	218
Net Assets		(24,614)	8,897	7,371
Equity				
Issued capital	n	11,791	16,601	16,601
Reserves		100	(137)	(83)
Retained profits/ (Accumulated Losses)		(6,061)	(7,700)	(9,207)
Clearing Accounts	o	(30,444)	n/a	n/a
Equity attributable to owners of the Company		(24,614)	8,764	7,311
Non-controlling interests			133	60
Total Equity		(24,614)	8,897	7,371

Source: BDO audited financial statements FY13 to FY14, trial balance YTD FY15

We comment on each of the categories included in balance sheet below:

- a) Cash at bank includes term deposits with NAB, USD and GBP accounts with NAB and overdrafts with STG. We understand cash was used to meet BBY's intra-day settlement obligations with the ASX and to meet minimum core liquid capital requirements. At 30 June 2014 total cash at bank was \$2.6 million, of this \$2.2 million (86%) resided in BBY. The negative balance of \$10.8 million at 30 April 2015 sits mainly within the BSA NAB account (negative) \$7.8 million and BBYH general account with NAB (negative) \$2.8 million. We were not provided with reasons to the nature of these amounts.
- b) Trade and other receivables appear to comprise debtors from clients and local and overseas brokers in relation to outstanding ASX settlement obligations. At 30 June 2014 the total receivables of \$80.2 million was comprised of segregated bank receivables totalling \$6.3 million, segregated client assets totalling \$34.0 million and \$19.5 million of trade and clearing receivables. These amounts resided within BBY, the main trading entity. At 30 April 2015 the amounts within BBY were \$22.8 million in trade and clearing receivables, \$12.2 million in segregated bank assets and \$26.1 million in segregated client asset accounts.
- c) Other financial assets include the fair value of listed investments and financial assets available for sale. Investments have been listed at the quoted market bid price at balance date, adjusted for transaction costs expected to be incurred. At 30 June 2014 total investments in listed securities were \$2.7 million, with the majority being held by BBYH for \$2.5 million (91%). The remaining balance comprised of \$0.1 million (5%) with BBY and \$0.1 million (4%) with Jaguar Assets Bermuda. The balance at 30 April 2015 was minimal at \$0.1 million.
- d) Other assets appear to comprise term deposits and prepaid expenses. The majority of the \$1.4 million balance at 30 June 2014 is held in BBY. At 30 April 2015 this balance had increased to \$2.4 million, with BBY representing 50%, BBYAS 27% (\$0.7 million) and BBYH and BSA both \$0.3 million.
- e) Deferred tax asset relates to tax benefits for employee provisions and accruals. The DTA total of \$0.9 million at 30 June 2014 comprised \$0.5 million in BBY (53%), BSA of \$0.3 million (38%) and the remainder attributable to BBYH of \$0.08 million (7%). At 30 April 2015 the deferred tax asset was \$0.5 million which resides within BBY.
- f) Other assets comprised of plant and equipment less depreciation. At 30 June 2014 the balance of \$0.5 million was largely made up of BBY with \$0.2 million (51%) and BSA with \$0.2 million in fixed assets (41%). The remaining 8% per the books and records was held with BBY NZ.
- g) Other financial assets relates to convertible notes in Firestone Energy for \$7.9 million at 30 June 2014. Subsequent to FY2014, the \$7.9 million in convertible notes were sold or transferred to director related entities. Of this, \$5.9 million consideration was received with the balance of \$2.1 million transferred to director related entities by way of reducing loans owing to the directors.
- h) Trade and other payables relates to outstanding institutional and private client ASX settlement obligations, along with domestic trade creditors. The balance of \$61.2 million at 30 June 2014 is mostly within BBY with \$51.8 million (83%) given it is the main trading entity. The remaining payables are with BBYH totalling \$5.5 million (9%) and BSA totalling \$4.2 million (7%). At 30 April 2015 this balance was \$77.9 million and was mainly comprised of outstanding obligations for institutional clients of \$69.1 million in BBY with the remaining balance being trade creditors of \$8.1 million split between BBY (52%) and BSA (48%).
- i) Borrowings at 30 June 2014 were in relation to director related loans at an interest rate of 15%. Subsequent to the end of FY14 \$2.1 million of the director loans were transferred for the purchase of convertible notes as outlined above under other financial assets. At 30 April 2015 the borrowings had increased to \$5.2 million which was in relation to the secured creditor, STG.
- j) Provisions (current) relate to annual leave entitlements as well as make good lease provisions. At 30 June 2014 there were \$0.9 million in employee provisions within BSA and \$0.1 million in make good provisions in BBY. At 30 April 2015 the provision of \$7.4 million was for BSA, comprising of \$5.9m in salary clearing, \$0.7 million being superannuation and \$0.6 million in payroll tax.
- k) Deferred tax liabilities were minimal.
- l) Provisions (non-current) relate to long service leave entitlement for employees and make good provisions. At 30 June 2014 there were \$0.2 million in employee provisions within BSA and \$0.2 million in make good provisions in BBY. At 30 April 2015 this balance was \$0.2 million and related to the make good provision.
- m) Borrowings relates to BBY entering into a new sub-ordinated loan agreement with BBYH at an interest rate of 15%.
- n) Issued capital variance between 30 June 2014 and 30 April 2015 relates to issued capital in companies in the BBY Group that were not placed into Administration and have not been presented as part of the consolidated total at this date.
- o) Clearing accounts appeared in the trial balance at 30 April 2015 as a suspense account. This account is discussed in more detail later in the report.

Monthly reporting to the ASX

Summarised below is the financial position for the main trading entity BBY at 30 April 2015, comparing the trial balance against information provided to the ASX as part of BBY's monthly reporting.

\$'000	30 April 2015 Trial Balance	30 April 2015 ASX reporting
Current Assets		
Cash and cash equivalents	(655)	2,389
Trade and other receivables	69,873	99,839
Other financial assets	78	78
Other assets	1,475	(672)
Total current assets	70,771	101,634
Non-Current Assets		
Deferred tax asset	472	537
Other assets	234	-
Other financial assets	7	7
Total Non-current assets	714	544
Total Assets	71,485	102,178
Current Liabilities		
Trade and other payables	75,289	75,523
Borrowings	5,178	5,178
Provisions	-	-
Total current liabilities	80,467	80,701
Non-current Liabilities		
Deferred tax liabilities	-	-
Provisions	234	-
Borrowings	2,000	2,000
Total Non-current liabilities	2,234	2,000
Net Assets	(11,217)	19,477
Equity		
Issued capital	11,438	11,438
Reserves	100	100
Retained profits/ (Accumulated Losses)	7,939	7,939
Clearing Accounts	(30,693)	-
Equity attributable to owners of the Company	(11,217)	19,477
Non-controlling interests	-	-
Total Equity	(11,217)	19,477

Source: Trial balance YTD FY15, April 2015 management report to ASX

We have not sighted any workpapers to reconcile between the trial balance and the report presented to the ASX. However we note the major discrepancy between the two balance sheets relates to the trade receivables balance and the accounting for the clearing account. In its management report, BBY has classified \$30.7 million as a clearing receivable. It is unclear from the records whether this amount relates to money paid to clients which have not been recorded against their ledger or whether it is funds owed to BBY as ascertained by management. The trial balance at 30 April 2015 records the clearing account within shareholders equity and has not allocated the amount to an asset category. As a result the net asset position in the trial balance is showing as negative \$11.2 million.

7. Statement by directors

7.1 Report as to affairs

In accordance with the Act, directors were required to submit a Report as to Affairs in relation to each company providing details of the business, property, affairs and financial circumstances.

David Perkins provided a RATA for BBYH and BBYL on 1 June 2015. He provided a RATA for BSA on 4 June 2015. No RATA was received for STL from Mr Perkins, who is a Director of STL.

The Chairman, Glenn Rosewall, provided draft RATAs on 4 June 2015 for BBYH and BBY along with a draft director's questionnaire. On 5 June 2015 he provided updated RATAs for all 10 companies placed in Administration all of which he was a Director. We received a final director's questionnaire on 9 June 2015 from Glenn Rosewall, Ken Rosewall provided final RATAs on 5 June 2015 for those 4 companies he was a Director, being BBYL, BBYH, BBYAS and STL.

The RATA presents a snapshot of the asset and liability position of the companies on a going concern and forced asset realisation basis, as prepared by the directors. The table below provides a comparison of book values and estimated realisable amounts.

On review of the RATAs the Administrators make the following observations:

- Numerous inconsistencies exist between each of the directors statements relating to book values and ERVs for each of the companies;
- RATAs were inadequately completed as amounts were stated in the Assets & Liabilities section of the RATA that were unreconciled to supporting schedules provided;
- Each director categorised certain assets and / or liabilities differently; and
- Sections of the RATA were not appropriately completed or left blank with no commentary provided.

The RATAs for the following companies within the BBY Group have been summarised in this section along with comparisons between the book value and estimated realisable value presented by the directors in each of those companies:

- BBY Holdings Pty Ltd;
- BBY Limited; and
- Broker Services Australia Pty Ltd

The majority of transactions within the BBY Companies were made through these 3 entities. The RATAs for the remaining 3 companies placed into Administration can be found at Appendix D.

BBY Holdings Pty Ltd

BBY Holdings Pty Ltd	Glenn Rosewall		Ken Rosewall		David Perkins	
	Book value	ERV	Book value	ERV	Book value	ERV
Interests in land	N/A	Nil	N/A	N/A	Nil	Nil
Debtors	2,975	Unknown	2,975	Unknown	Nil	Nil
Cash at bank	80	Unknown	80	Nil	(2,731)	Nil
Stock	504	Unknown	N/A	N/A	N/A	Nil
Property, plant & equipment	N/A	Nil	N/A	N/A	N/A	Nil
Other assets - Deposits (bonds)	N/A	Nil	N/A	N/A	2,722	253
Total Current Assets	3,560	0	3,055	0	(8)	253
Amounts owing to secured creditor	Nil	Nil	Unknown	Unknown	Nil	Nil
Amounts owing for employees	Nil	Nil	Nil	Nil	Nil	Nil
Preferential creditors	Nil	Nil	Nil	Nil	Nil	Nil
Partly secured creditors	Nil	Nil	Nil	Nil	Nil	Nil
Creditors	(3,748)	Unknown	(3,748)	Unknown	(267)	(267)
Contingent liabilities	Unknown	Nil	Unknown	Nil	Nil	Nil
Total Liabilities	(3,748)	0	(3,748)	0	(267)	(267)
Estimated surplus/ (deficiency)	(188)	0	(693)	0	(275)	(14)

We comment on each of the categories included in the RATA for BBYH and their estimated realisable values:

- Interests in Land – all directors indicated there is zero value for land. This agrees with the trial balance.
- Debtors – directors have stated recoverability of debtors is unknown. The book values of \$3.0 million for Glenn and Ken Rosewall relate to intercompany receivables of \$3.3 million from Broker Services and \$0.6 million payable to BBY for intercompany recharges within the BBY Group. It also included sundry debtors of \$0.3 million, with no supporting documentation provided in relation to the sundry debtors. David Perkins did not provide an amount for debtors.
- Cash at bank held in cheque and operating accounts by NAB – all directors indicated there would be nil or unknown recoverability for cash at bank. David Perkins book value of (negative) \$2.7 million varies to the other two directors who have the book value being \$80,000. This variance is due to Mr Perkins classifying a negative balance of \$2.8 million with NAB within cash at bank, whereas both Glenn and Ken Rosewall classified this as an unsecured creditor.
- Stock – both Ken Rosewall and David Perkins indicated this was not applicable. Glenn Rosewall provided a book value of \$0.5 million in relation to Firestone Energy convertible notes which he considered to be inventory, rather than categorised as "other asset" as detailed in the RATA. Glenn Rosewall estimated the recoverability as unknown.
- Property, plant & equipment – all three directors stated there were no fixed assets held within this company. This is confirmed by the trial balance and the records we have reviewed.
- Other assets – both Glenn and Ken Rosewall stated the balance as not applicable. David Perkins included a recoverable amount of \$0.3 million for sundry debtors. No detail was provided on the nature of this asset.
- Amounts owing to secured creditor – the directors recorded an ERV and book value as being nil or unknown. It should be noted the charge held by the secured creditor, STG, also included BBYH.
- Amounts owing for employees – not applicable as there were no employment contracts in BBYH.
- Preferential creditors – the directors recorded ERV and book values of nil.
- Partly secured creditors – the directors recorded ERV and book values of nil.
- Creditors – relates to domestic trade creditors. Both Glenn and Ken Rosewall recorded book values of \$3.7 million and ERV of unknown. Mr Perkins included an ERV of \$0.3 million for domestic vendors, with no detail provided on the breakdown of these creditors.
- Contingent liabilities – the directors recorded ERV and book values of nil.

BBY Limited

BBY Limited	Glenn Rosewall		Ken Rosewall		David Perkins	
	Book value	ERV	Book value	ERV	Book value	ERV
Interests in land	Nil	Nil	Nil	Nil	Nil	Nil
Debtors	Sch D	Unknown	Nil	Nil	5,209	4,500
Cash at bank	Sch D	Unknown	25,504	Unknown	(655)	3
Stock	N/A	N/A	N/A	N/A	N/A	Nil
Property, plant & equipment	Nil	Nil	N/A	N/A	N/A	N/A
Other assets - Deposits (bonds)	Nil	Nil	N/A	N/A	66,931	57,215
Total Current Assets	25,504	0	25,504	0	71,485	61,718
Amounts owing to secured creditor	(5,178)	Unknown	(5,178)	Unknown	(5,178)	(5,178)
Amounts owing for employees	Nil	Nil	Nil	Nil	(38,370)	(38,370)
Preferential creditors	Nil	Unknown	Nil	Nil	Nil	Nil
Partly secured creditors	Nil	Nil	Nil	Nil	Nil	Nil
Creditors	(49,444)	Unknown	(49,444)	Unknown	(4,295)	(4,295)
Contingent liabilities	Unknown	Nil	Unknown	Nil	Nil	(33)
Total Liabilities	(54,623)	0	(54,623)	0	(47,843)	(47,876)
Estimated surplus (deficiency)	(29,119)	0	(29,119)	0	23,642	13,842

We comment on each of the categories included in the RATA for BBY and their estimated realisable values:

- Interests in Land – all directors indicated there is zero value for land. This agrees with the trial balance and the records which we have reviewed.
- Debtors – both Glenn and Ken Rosewall have stated recoverability of debtors is nil or unknown. Glenn Rosewall provided a schedule for debtors which included trade debtors, sundry debtors, prepayments and clearing receivables. The total book value for the debtors schedule was \$24.3 million. David Perkins estimated an ERV of \$4.5 million for debtors which included corporate debtors, sundry debtors and non-corporate receivables. There was no detail provided by Mr Perkins on which particular debtors he viewed as being recoverable. We noted there was a variance of \$0.6 million between the trial balance and the supporting schedule for trade debtors, with no explanations provided by Mr Perkins. The ERV of \$4.5 million for debtors may not be fully recoverable as there is a potential bad debt for \$1.9 million for one client relating to an exposure on the Swiss currency from January 2015.
- Cash at bank – relates to accounts with NAB, STG and Bank of New Zealand. This also includes a NAB Saxo buffer account. Both Glenn and Ken Rosewall indicated amounts as unknown, with David Perkins estimating \$3,242 for petty cash. It is unlikely petty cash will be recoverable.
- Stock – not applicable as there is no inventory for BBY.
- Property, plant & equipment – all three directors stated there were no fixed assets held within this company. This is consistent with the trial balance.
- Other assets – both Glenn and Ken Rosewall indicated other assets as nil or not applicable. David Perkins stated the recoverability of \$57.2 million which included segregated bank assets, segregated client clearing accounts, self-clearing receivables and intercompany balance. This view would appear optimistic given our investigations to date.
- Amounts owing to secured creditor – the directors recorded a book value of \$5.2 million for the STG debt. Both Glenn and Ken Rosewall indicated the ERV as unknown, with Mr Perkins stating it would be \$5.2 million. The Administrators note the secured debt may in fact be larger than this, based on discussions with the Receivers.
- Amounts owing for employees – both Glenn and Ken Rosewall recorded values of nil, given there were no employment contracts in BBY. Mr Perkins recorded both a book value and ERV of \$38.4 million comprising segregated accounts with counterparties. It would appear this section was incorrectly completed.
- Preferential creditors – the directors recorded ERV and book values of nil.
- Partly secured creditors – the directors recorded ERV and book values of nil.
- Creditors – both Glenn and Ken Rosewall recorded book values of \$49.4 million and ERV of unknown. This included amounts owed for domestic accounts payable, self-clearing payables and institutional clients. There was a set off value of

\$30.7 million included as part of this schedule in relation to a suspense clearing account identified as "Palion FX". It is unclear whether this balance is for money paid to institutional clients which have not been recorded against the ledger or whether it is funds owed to the company. Mr Perkins included \$4.3 million in creditors for amounts owing to IT providers, statutory bodies and other overheads.

- Contingent liabilities – both Glenn and Ken Rosewall recorded book values of unknown with no amount completed for ERV. Mr Perkins indicated a minor amount of \$33,000 however there was no commentary provided on the nature of this contingent liability or how this amount was calculated.

Broker Services Australia Pty Ltd

Broker Services Australia Pty Ltd	Glenn Rosewall		David Perkins	
	Book value	ERV	Book value	ERV
Interests in land	N/A	N/A	Nil	Nil
Debtors	N/A	N/A	Nil	Nil
Cash at bank	N/A	N/A	Nil	Nil
Stock	N/A	N/A	Nil	Nil
Property, plant & equipment	N/A	N/A	Nil	Nil
Other assets - Deposits (bonds)	N/A	N/A	Nil	Nil
Total Current Assets	463	317	0	317
Amounts owing to secured creditor	Nil	Nil	Nil	Nil
Amounts owing for employees	(1,434)	(1,434)	(1,434)	(1,434)
Preferential creditors	Nil	Nil	Nil	Nil
Partly secured creditors	Nil	Nil	Nil	Nil
Creditors	(8,892)	Unknown	(3,600)	(3,600)
Contingent liabilities	Unknown	Nil	Nil	Nil
Total Liabilities	(10,326)	(1,434)	(5,034)	(5,034)
Estimated surplus (deficiency)	(9,863)	(1,117)	(5,034)	(4,717)

We comment on each of the categories included in the RATA for BSA and their estimated realisable values. Given BSA was the employment vehicle within the BBY companies, there were few assets in the general ledger:

- Assets – both Glenn Rosewall and David Perkins included book value and NRV of nil for each of the categories. Each director however provided an ERV of \$0.3 million for total assets in the RATA. The calculation of this was based on \$270,000 for sundry debtors and \$50,000 for fixed assets. We believe it is unlikely there will be any asset realisations in this company.
- Amounts owing for employees – this related to annual and long service leave entitlements for employees. Both directors recorded this amount as \$1.4 million and provided a supporting schedule.
- Creditors – this account relates to domestic trade creditors, withholding tax, broker and independent advisor liabilities and accruals. Glenn Rosewall recorded a book value of \$8.9 million and an ERV of unknown. Mr Perkins recorded a book value and ERV of \$3.6 million, which related to amounts owed to domestic trade creditors, brokers and independent advisors.
- Contingent liabilities – the directors recorded ERV and book values of nil or unknown.

7.2 Unsecured creditors (excluding clients)

The ten largest unsecured creditors listed in the RATAs are set out below for the BBY Companies. It should be noted a detailed breakdown of trade creditors was only provided for BBY within the RATAs. Per the books and records, the majority of the top 10 largest trade creditors from the sub-ledger were IT providers or trading counterparties.

Creditor name	Company	RATA amount (\$)
Agility Applications	BBY Limited	728,463
GBST	BBY Limited	643,328
Iress Market Technology	BBY Limited	595,407
ABN AMRO	BBY Limited	423,594
American Express	BBY Limited	314,645
Patersons	BBY Limited	221,320
OZ Financial Australia	BBY Limited	199,725
Access Networks & Co	BBY Limited	191,667
Colliers International	BBY Limited	142,714
ASX - Settlement Pty Ltd	BBY Limited	129,287
Total of top ten		3,590,149
Total unsecured creditors		17,642,253
% of total unsecured		20%

Note – total unsecured creditors of \$17.6 million based on Glenn Rosewall's RATAs.

7.3 Reasons for financial difficulties – directors explanation

Glenn Rosewall, the Chairman of BBY, provided his reasons for the financial difficulties in his director's questionnaire. He listed the following items as the major causes of failure:

St George Bank's "mix up" on 14 May 2015 in connection with an ASX margin call

Mr Rosewall stated on 14 May 2015, STG agreed to meet an ASX margin call, then reversed this payment and finally met the payment. During this "mix up" Mr Rosewall was forced to notify two groups of potential investors (the first group in Melbourne were allegedly contributing \$2.5 million and the second group from the Gold Coast who were allegedly contributing \$2.0 million), that STG would not be meeting the margin call. The Melbourne investors subsequently decided not to invest in BBY. The Gold Coast investors attended BBY's Sydney offices on 15 May 2015 along with investors from AIMS in an attempt to reach a new deal. In the opinion of Mr Rosewall, STG's conduct resulted in BBY losing the Melbourne investment of \$2.5 million and created serious concern amongst the Gold Coast investors and AIMS. Mr Rosewall stated his view that this was the reason investors retracted their offer on 17 May 2015.

ASX new conditions

The ASX called additional Capital Based Position Limit Cover from BBY when its ratio went above 3. Mr Rosewall commented that despite the ratio being restored to 2.5, the ASX chose not to return BBY's capital until certain conditions were met, including BBY exiting the ASX options clearing business. By exiting the options clearing business, BBY would be forfeiting an average of \$1.2 million in revenue per month that would require the business to find alternative sources of revenue or make significant cost reductions. The ASX conditions required BBY's board to consider other finances or to draw further on its STG credit facility, which had already exceeded its limit due to additional margin calls by the ASX.

The conduct of the CEO, Arun Maharaj

Mr Maharaj had been with BBY since April 2002 and had been CFO for seven years. In 2012 he became the CEO and held this role until the date of his resignation in March 2015. In his questionnaire, Mr Rosewall stated that from at least December 2014 the following conduct was displayed by Mr Maharaj:

- Consistently failed to complete key financial management and operational tasks; and
- BBY identified inconsistencies in Mr Maharaj's reports to the Board and other financial reports, including under reporting BBY's creditor position.

When Mr Rosewall confronted Mr Maharaj on these issues, Mr Rosewall states the CEO gave his resignation. Key members of Mr Maharaj's financial team also left on or around March 2015.

7.4 Reasons for financial difficulties – Administrators opinion

We believe the issues relating to the failure of the BBY Companies began well before they were placed into Administration and include a systemic failure on behalf of the Board and senior management to address a myriad of issues facing the BBY Companies over the past few years. In particular, we considered the following factors attributed to the failure of the business:

- Continued pressure on margins and significant competition in the marketplace;
- Lack of adequate corporate governance;
- Lack of independent directors at the Board level;
- Inadequate risk management frameworks which exposed the business to large losses;
- Poor management;
- Trading activity in excess of funding capacity (effectively overtrading beyond available working capital);
- Poor management information systems within the business;
- Inadequate financial records;
- Possible short comings in audit processes;
- The financial impact of the Aquila Resources transaction in June 2014 and Saxo terminating its relationship with BBY in December 2014;
- Closure of the ASX Options clearing business in May 2015;

8. Conduct of the Administration

8.1 Tasks undertaken

The Directors of the BBY Companies resolved to appoint the Administrators at 11pm on Sunday 17 May 2015. The Receivers were appointed by STG the following morning and took possession of the business and assets.

The Administrator's functions and powers are, pursuant to section 442D of the Act, subject to the power of the Receivers.

Given the appointment of Receivers and their control of the business and assets, our focus has been directed toward exploring interest in any proposals for a Deed of Company Arrangement that may result in preservation of parts of the business and provide a better return to creditors, investigating the position in relation to client monies issues, communicating with clients and creditors, completing our statutory investigation into the affairs of the BBY Companies and reporting to creditors.

Major tasks attended to during the Administrations are discussed below:

Employees/Creditors

- Attended 6 Australian sites to address employees and provide them with information in respect of the Administration process, their rights and protection under the government FEG scheme.
- Obtained a Supreme Court order allowing clients to be emailed notification at the first creditors meeting.
- Engaged Link Market Services to manage a client call centre (received 929 client calls and responded to 1160 emails).
- Prepared a first circular to creditors, including a notice of meeting and paperwork for the first creditors meeting, writing to approximately 180 employees, 170 unsecured creditors and emailed 33,000 clients.
- Maintained a creditor and employees enquiry register.
- Notified all landlords and parties with a PPSR registration of the appointment of Administrators.
- Liaised with employees in regard to winding down the business, providing information to the Administrators and requesting creditor details.
- Processed a payroll for BSA employees for 4 business days prior to redundancies.
- Made redundancies of all staff and had Administrators staff available to answer questions.
- Chaired a first creditors at the Masonic Centre in Sydney (267 creditors represented in person or by proxy and 39 creditors by webcast).
- Prepared detailed slides for the first meeting of creditors (available on KPMG website) and lodged minutes of the meeting with ASIC.
- Adjudicated on informal proofs of debt and proxy forms for voting purposes.
- Prepared a detailed schedule calculating employee entitlements and reviewed all employee contracts.
- Commenced preparation of employee group certificates for FY15 and separation certificates.
- Prepared a detailed presentation to the Committee of Creditors and hosted a 3 hour meeting with the committee.
- Prepared this section 439A report for creditors.

Client Monies

- Wrote to all counter party providers to advise of the administration and request information.
- Assigned a dedicated audit team to review the status of client monies accounts and reconciliations
- Conducted a forensic examination to identify and investigate transactions of interest relating to CMAs.
- Requested various information from STG regarding certain transactions

Investigation

- Summarised company ASIC and PPSR register searches for all companies in administration.
- Reviewed books and records, audited financial statements and management accounts.

- Received and reviewed Director's RATAs and completed questionnaires and conducted interviews with Glenn Rosewall and David Perkins. We also attempted to contact Arun Maharaj by telephone and text however did not receive a response.
- Reviewed the last 3 years of board minutes.
- Identified key areas for further investigation and considered possible offences and causes of action.
- Liaised with ASIC in relation to the status of investigations.

Sale of business / assets

- Prepared, reviewed and negotiated a nonrecourse loan with AIMS to fund wages and associated costs in BSA as well as Administrator and legal costs.
- Liaised with the Receivers in regard to sale initiatives, discussions with interested parties and valuation of plant and equipment.
- Considered a request by the Receivers to facilitate a sale to AIMS of various assets including the client list, plant and equipment and shares in several of the BBY Companies. Agreed a sale price and sale terms with AIMS and the Receivers and completed the sale to AIMS, receiving \$200,000 of the sale proceeds (with the remainder being applied to the secured debt).
- Prepared an information memorandum in respect to the assets of STL and BBYHT and liaised with interested parties.
- Made inquiries attempting to determine the financial and contractual position of the 4 nominee companies, BBYN, BBYPN, TN and OR including review of records and searches of public databases.

Other

- Met with representative of the National Guarantee Fund to understand its position in relation to losses incurred by clients of BBY and determine information it may require
- Held preliminary discussions with potential litigations funders as well as parties expressing interest in purchasing the rights of clients to claim against client monies.
- Opened Administrators bank account for company monies available at appointment and conducted bank reconciliations.
- Opened separate bank accounts for trust monies and accounted for funds separately.
- Maintained a register of receipts and payments and a commitments register.
- Arranged insurance coverage.
- Requested a copy of BBY's directors and officers policy.
- Lodged various statutory forms with ASIC.
- Met and liaised with ASIC, ASX, PPB, and STG.
- Responded to numerous inquiries from clients, creditors and the media.

8.2 Receipts and payments

Set out below is a summary of receipts and payments in the various administrations from 17 May 2015 to 11 June 2015.

BBY Group - Receipts and Payments 17 May 2015 to 11 June 2015				
\$'000	BBY Limited	Broker Services Australia	SmarTrader limited	BBY Hometrader
Receipts				
Pre-appointment bank account		10.3	51.0	11.8
Sale proceeds - AIMS Group	262.5			
AIMS funding	450.1	48.9		
Total receipts	712.6	60.2	51.0	11.8
Payments				
Post-appointment wages		(58.4)		
Employee expense reimbursements		(1.8)		
Total payments	-	(60.2)	-	-
Closing cash as at 11 June 2015	712.6	-	51.0	11.8

Source: Voluntary Administrators MYOB Accounts

Note: Other unmentioned entities did not have cash balances and did not trade during the period

9. Statutory investigations

9.1 Scope

Pursuant to section 438A of the Act, the Administrators are required to conduct investigations into BBY Companies' business, property, affairs and financial circumstances. The Administrators are required to form an opinion about whether it would be in the best interest of the creditors of each of the BBY companies to execute a DOCA, for the administration to end, or for the BBY companies to be wound up. Given the comparison required with a winding up the Administrators investigations include the consideration of whether there are any potential actions available to a liquidator in the event that creditors resolve to place individual companies into liquidation.

We are required to report to ASIC if we consider that past or present officers or shareholders of the BBY Companies may have committed an offence under the Act. Reports to ASIC are confidential and we are unable to disclose details to creditors.

The short time frame associated with the Administration process limits the extent of investigations that that can be performed prior to the second meeting. Our inquiries and analysis are not complete as some directors and other parties are still to provide information requested. We have not completed a full investigation of the kind that we would perform should the BBY Companies be placed into liquidation. The investigations performed to date are therefore only indicative of the actions that may be possible in the event of liquidation. Should creditors consider they have further information that may be useful in our inquiries, please do not hesitate to contact this office.

In considering the merits of proceeding with any recovery action, a liquidator must have regard to the relative costs and benefits together with the prospects of success and the financial ability of defendants to meet claims. Recovery actions are often expensive and can involve lengthy delays if court proceedings are required.

9.2 Information reviewed

The investigations performed by the Administrators were predominantly based on the following sources of information:

- Meetings with and considering disclosures made by Mr Glenn Rosewall and Mr David Parkins;
- Review of RATAs and questionnaires from the Directors;
- Discussions with the Receivers in relation to the operations of the Receivership companies and the realisation of assets by STG;
- Discussions with management, staff, suppliers and other parties;
- Publicly available information including ASIC records and other public databases; and
- Books and records located at the head office including accounting information downloaded from the SAP accounting system.

9.3 Limitations

Our investigations were limited in a number of respects as discussed below. However, we are satisfied with the conclusions we have reached and opinions expressed in this report.

These limitations included:

- The majority of computer records were maintained on offsite servers maintained by a third party provider. We sought to obtain a download of all material upon our appointment however we had to negotiate with the service provider and there have been delays in obtaining this information. This is expected shortly but was not available at the time this report was prepared.
- Various information was received in the days prior to this report. Mr Glenn Rosewall submitted his RATA on 4 June 2015 and Mr Ken Rosewall submitted his RATA on 5 June 2015, Mr Glenn Rosewall submitted his questionnaire on 9 June 2015. As at the date of this report, the questionnaire for Mr Ken Rosewall remains outstanding.
- Management accounting information was limited for some of the BBY Companies' and as noted elsewhere in this report books and records were deficient.

9.4 Books and records

Pursuant to section 286 (1) and (2) of the Act, a company is required to keep written financial records for a period of 7 years that correctly record and explain its transactions, and financial position and performance and would enable true and fair financial statements to be prepared and audited.

In some circumstances, the failure to maintain adequate books and records in accordance with the Act may be relied upon by a liquidator in an application for compensation for insolvent trading and other actions for recoveries pursuant to Division 2 of Part 5.7B of the Act. In particular, under section 588E(4) of the Act, if a liquidator can establish that the company has failed to keep financial records as required under section 286(1) or (2) of the Act in relation to a period of time, the company is determined to have been insolvent throughout the period.

BBY Companies records reviewed by the Administrators included:

- SAP electronic general ledger listings for the previous 3 years from July 2012 to April 2015;
- Management accounts from 2012, including profit and loss statements, balance sheets and cash flow statements;
- Bank statements, credit card statements and bank reconciliations;
- Company register and ASIC submissions;
- Business Activity Statements and ATO correspondence; and
- Audited financial statements covering the periods for FY11, FY12, FY13 and FY14.

Due to time constraints we have not attempted to review in any detail, information relating to the period beyond the last 4 years however the information we have reviewed leads us to reach a preliminary conclusion that records may not have been maintained in compliance with the requirements of Section 286 (1) or (2) of the Act.

9.5 Offences and director duties

Section 438D (1) of the Act requires an administrator to report to ASIC if it appears that:

- A past or present officer, or member, of the company may have been guilty of an offence in relation to the company; or
- A person who has taken part in the formation, promotion, administration, management or winding up of the company may have misapplied money or property of the company or may have been guilty of negligence, default, breach of duty or trust in relation to the company.

The Administrators are preparing a report to ASIC under section 438D (1) of the Act which will address some of the matters raised in this report.

Any report lodged pursuant to Section 438D (1) of the Act (or an investigative report lodged by a liquidator pursuant to Section 533 of the Act) is not available to the public.

There are also a range of offences under the Act that apply to the conduct of officers of the BBY Companies. Further information is set out in the ASIC Creditor Information Sheet at Appendix H.

We have undertaken a preliminary investigation of the affairs of the BBY Companies in relation to suspected contraventions. We consider that certain matters warrant further investigation and, may be reported to ASIC.

We are continuing our forensic examination of the records and interviewing personnel. The KPMG Forensics team have imaged computer servers and employee workstations, including a large volume of data. Approximately 600,000 emails have been processed and indexed in preparation for a review.

The apparent insolvency of BBY and other BBY companies, which is discussed below in this report

9.6 The Aquila Transaction

As discussed earlier, on Wednesday 11 June 2014, BBY executed an acquisition of shares in AQA (the "AQA Transaction"). On Thursday 12 June 2014, as a consequence of the AQA Transaction and its other open positions, BBY was due to be called approximately \$40.0 million of margins by ASX Clear, consisting of approximately \$18.0 million of Initial Margin, \$7.0 million of Variation Margin and a \$15.0 million CBPL additional margin payment.

ASX advised BBY that to prevent it from committing an event of default and suffering a possible insolvency event, ASX would delay making the full CBPL call of \$15.0 million but would be making an additional CBPL call for \$5.0 million – the full balance of funds available to BBY at that time. The CBPL additional call for \$5.0 million was settled by BBY on 12 June 2014.

On 13 June 2014, BBY confirmed with ASX that \$10.0 million shareholder funds had been received into BBY's bank account and BBY settled the outstanding CBPL additional call for \$10.0 million and a further \$3.2 million Variation Margin call following a further decline in the AQA share price the previous day.

Upon review of the Company's bank statements, we have noted the following transactions which appear to have occurred on or around the dates of the Aquila Transaction:

- 12 June 2014 - \$2.5 million loan from Glenn Rosewall National Private Superfund to a BBY entity to assist with meeting the CBPL margin call
- 13 June 2014 - \$6.8 million was transferred from the BBY Futures Segregated Trust Account to BBY Ltd Trust A/C 4 (a request to close the BBY Trust A/C 4 was made on this date, however it was not closed until 26 June 2014)
- 13 June 2014 - \$7.4 million was transferred from BBY General Trust to BBY Ltd Trust A/C 1 (\$4.4 million) and BBY Trust A/C 3 (\$3 million)
- 16 June 2014 - \$3.0 million loan from Ficema (Ken Rosewall) to a BBY entity to assist in meeting the CBPL margin call
- 17 June 2014 - \$960,000 transfer from BBY General Trust A/C to BBY Equities Trust A/C
- 24 June 2014 - \$2.5 million transfer from the BBY Ltd Trust A/C 4 to the Glenn Rosewall National Private Superfund (apparent repayment of loan from 12 June 2014)
- 25 June 2014 - \$3.5 million transfer from the BBY Ltd Trust A/C 4 to the BBY LTD General Trust A/C (we are still awaiting information on transactions from this account)
- 25 June 2014 - \$6.5 million transfer from BBY Ltd General Trust A/C to three unspecified accounts (we are still awaiting information on transactions from this account)

9.7 Saxo discrepancy transactions

We have identified a number of transactions with respect to the Saxo Buffer Account which we believe require further investigation:

- One transfer from the Saxo Buffer Account to the BBY NAB Operating Account (\$1.6 million on 31 March 2015)
- Five transfers from the Saxo Buffer Account to the BBY General Account (\$750,000 on 25 February 2015, \$563,000 on 2 March 15, \$150,000 on 4 March 2015, \$750,000 on 13 March 2015, \$139,000 on 16 March)
- Two transfers from the Saxo Buffer Account to BBY FX Account (\$870,000 on 23 February 2015, \$426,000 on 23 February 2015)

We understand that these transactions may have contributed to the estimated shortfall against the Saxo account balance. Again, this will require further investigation in liquidation if creditors resolve that BBY be wound up.

9.8 Facilitation account potential fraud

As part of day to day operations BBY need to be able to fund clearing obligations between BBY and ASX until money is collected from clients. St George Bank provided credit to BBY in connection with a facilitation account used to manage client settlement obligations.

STG required that BBY provide supporting documentation to evidence daily funding requirements, which was in the form of details of open contracts. We understand that from late June 2014 to May 2015 false information was provided to STG in support of the funding requirements, overstating the level of open contracts by approximately \$3 million. It appears that, as a consequence, STG may effectively have funded general working capital needs of the business.

Upon becoming aware of this matter, we conducted a series of interviews and took various forensic evidence to ascertain further details. We also reported this to STG, the ASX and ASIC. Our investigations are continuing and, due to legal reasons, we are not in a position to provide further information at this time.

9.9 Related party transactions

We have reviewed related party transactions as part of our investigation into possible offences and possible avenues for asset recovery or claims in the event of a winding up. These are discussed below.

Glenn Rosewall and related entities

Set out below is a summary of payments made to or on behalf of Glenn Rosewall, related entities and related parties during the last two years since 2013:

Glenn Rosewall related party transactions						
\$'000	Interest payments	Expenses reimbursed	Other	Direct payments total	Subcontractor payments	Indirect payments total
FY11*	-	-	-	-	-	-
FY12*	-	-	-	-	-	-
FY13	-	510	-	510	-	-
FY14	305	862	2,539	3,706	133	133
Jul 14 to May 15	-	266	1,891	2,156	67	67
Total	305	1,638	4,430	6,373	199	199

Source: SAP records

* SAP records were only available from FY13 onwards.

We note:

- Interest payments appear to relate to a loan of \$2.0 million that was provided to BBY on 27 June 2013. Further investigation is required to determine whether the rate of interest charged was appropriate.
- Expenses reimbursed relate to regular AMEX payments, which BBY paid on behalf of Glenn Rosewall. Further investigation is required to determine the basis on which these expenses were incurred and whether there is scope to recover funds in respect of them or whether misconduct or offences occurred in relation to them.
- Other amounts relates to:
 - Payments to third parties on behalf of Glenn Rosewall;
 - \$2.5 million loan that was repaid to the Glenn Rosewall National Private Superannuation fund; and
 - \$1.9 million loan that was repaid to Glenn Rosewall via the transfer of Firestone Energy Limited convertible notes to the Glenn Rosewall Private Superannuation Fund.
- Subcontractor payments relate to payments to and on behalf of Anson Rosewall, son of Glenn Rosewall. Anson was based in BBY's New York office. These payments also included professional fees, relocation costs, insurance, rent, travel and expense claims.

Based on the information above, in the event of a winding up, it appears there may be grounds for claims against Glenn Rosewall for recoveries including insolvent trading, breaches of directors' duties and potentially other offences under the Act.

Ken Rosewall and related entities

Set out below is a summary of payments made to or on behalf of Ken Rosewall, related entities and related parties during the last two years since 2013:

Ken Rosewall related party transactions			
\$'000	Interest payments	Other	Direct payments total
FY11*	-	-	-
FY12*	-	-	-
FY13	232	82	314
FY14	257	3,500	3,757
Jul 14 to May 15	-	4,000	4,000
Total	489	7,582	8,071

Source: SAP records

* SAP records were only available from FY13 onwards.

We note that Ken Rosewall received substantial payments from FY13 onwards which appear to relate to loans that he made to BBY (both repayment of principal and interest payments). If BBY is wound up, we will further investigate the circumstances of those loans and payments. In particular we will assess the extent to which client monies were affected to repay Mr Rosewall.

Following those investigations, we will provide further reports to creditors concerning those matters.

David Perkins and related entities

Set out below is a summary of payments made to or on behalf of Mr Perkins during the last four years since 2011:

David Perkins related party transactions		
\$'000	Subcontractor payments	Direct payments total
FY11	188	188
FY12	77	77
FY13	70	70
FY14	70	70
Jul 14 to May 15	53	53
Total	458	458

Source: BBY Limited Audited Financial Statements & SAP records

We note the majority of the above payments were paid to Perkins Solicitors as a legal retainer for legal services rendered. David Perkins is the principal of this firm.

We will further investigate the nature of the services provided by Mr Perkins and the funds paid to him if BBY is wound up.

9.10 Insolvent trading

Preliminary assessment

A company is considered to be insolvent if it is unable to pay all of its debts as and when they become due and payable. Case law suggests that, in certain circumstances, directors, when discharging their duties to a company, must take into account the interests of creditors, such as when a company is potentially about to become insolvent. Directors who allow a company to continue trading when there are reasonable grounds for suspecting that the company is or may become insolvent, may be held personally liable for debts incurred.

It is necessary to establish insolvency in order for a liquidator to be able to set aside a transaction or obtain compensation from a director for insolvent trading (with the exception of unfair loans and unreasonable director related transactions).

There are a number of tests that have been established by the courts as indicators of insolvency although there is no single test that provides an authoritative answer on whether or not a company was insolvent. We considered a range of factors, discussed below, in considering the solvency of the BBY Companies. These included:

- Cash flows

- Assets and liabilities
- Trading performance
- Books and records
- Ageing of creditors
- Statutory payments
- Any creditor recovery actions
- Auditor opinions
- Availability of future support from financiers and investors

Based on our preliminary investigations, we set out below a table illustrating indicators of insolvency:

BBY Group - Insolvency Indicator table																		
Indicator	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	
Profitability (continuous trading base)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Working capital deficiency	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Rapidly increasing trade creditors	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Evidence of payment plans	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?
Round sum payments to creditors	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?
Adverse creditor correspondence	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Increasing statutory liabilities	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Trust account imbalances	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Breach in secured facilities	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?
Incomplete financial records	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Lack of financial forecasts/budgets	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?

✗ Indicator not noted ? Unknown / further investigation required ✓ Indicator noted

We note:

- BBY consistently reported cash flow deficiencies from operating activities for the period June 2011 to June 2014, with the exception of June 2013, which appears to be supported by a significant reduction in receivables.
- According to profit and loss statements submitted to the ASX on a monthly basis, BBY made consistent operating losses from July 2012 to March 2015. These losses totalled approximately \$10.3 million.
- The operating losses appear to have been funded by the temporary financial support of the Directors and an investor, Mr Adam Blumenthal. In addition, working capital appears to have been supplemented by trust fund monies from client accounts, specifically in June 2014.
- According to the management accounts, trade creditor balances, excluding the ATO, increased from \$1.9 million in April 2014 to \$4.3 million at the date of Administration.
- BBY received statutory demands for payment from major suppliers including GBST, Iress and Agility.
- Outstanding payroll liabilities appear to have increased steadily from June 2014 with reported liabilities increasing from \$0.2 million to \$7.4 million upon our appointment. The Administrators note the dramatic increase in payroll liabilities may be a result of inconsistent accounting with respect to the salary clearing account, however further investigation is required and would be undertaken if BBY is wound up.
- BSA's outstanding GST liabilities appear to build up from June 2014 with GST liabilities totalling \$2.6 million prior to appointment.
- Payment arrangements with the ATO were entered into by BSA for PAYG withholding tax in August 2014 for circa \$150,000 per month and BBYH for GST in March 2015 for circa \$30,000 per month.

Based on preliminary investigations, our initial conclusion is that the BBY Companies may have been insolvent from June 2014. In June 2014, a number of key events and transactions occurred, which appear to have led to the insolvency of the BBY Group. These included the AQA transition and surrounding events, movements of funds from trust, the facilitation account potential fraud and the loss of the Saxo business.

Defences

Section 588G(1) of the Act provides the circumstances in which a director contravenes the Act by failing to prevent a company from incurring a debt. Section 588J(1) empowers the Court to order that the director pay to the company compensation for loss or damage caused by the contravention. Section 588G(3) provides an offence if the contravention is found to have been dishonest. Section 588H of the Act provides a number of defences to directors in relation to an insolvent trading claim in liquidation. In

summary, if the director can establish any of the following defences, the director will not incur civil liability under section 588G (these do not apply to the criminal offence provision in section 588G(3) of the Act):

- At the time the debt was incurred the director had reasonable grounds to expect, and did expect, that the company was solvent and would remain solvent if it incurred that debt, and any other debts, that it had incurred at that time;
- At the time the debt was incurred the director had reasonable grounds to believe, and did believe, that a competent and reliable person was responsible for providing information about the company's solvency, and that person was fulfilling that responsibility;
- The director through illness, or some other good reason, was not taking part in the management of the company at the time the debt was incurred, and
- The director took all reasonable steps to avoid the company from incurring the debt.

According to board minutes dated 12 May 2015, the Directors were of the view that the BBY Companies had the ongoing support of STG and other investors. On 14 May 2015, the Directors resolved that they were of the opinion there are reasonable grounds to believe that the BBY Group would be able to pay its debts as and when they become due and payable.

Glenn and Ken Rosewall continued to provide funding to the business up to June 2014, both providing loans totalling approximately \$8.0 million over a number of years. Other investors including Adam Blumenthal, a staff member of BBY's corporate finance team invested approximately \$2.4 million into BBYH in early 2015.

According to board minutes dated 12 May 2015, Glenn Rosewall was also in discussions with AIMS Financial Group to reach an agreement to inject approximately \$5 million of equity into the business, as well as discussions with other prospective investors.

All of these factors are relevant to the questions of the solvency position of BBY prior to our appointment. They will require further consideration if creditors resolve that BBY be wound up.

Conclusion

We have not sought extensive legal advice on these points, although we have had some discussions with our legal advisors. Our preliminary view is that the events of June 2014 appear highly relevant to the question of whether BBY, and other of the BBY companies as a result, became insolvent at that time or subsequently.

Based on the books, records and other information available to date, our preliminary view is that BBY, and other of the BBY Companies as a result, became insolvent on or around 11 or 12 June 2014 when BBY executed the AQA trade noted above.

If BBY is wound-up by resolution of creditors, a key focus of the liquidators would be further investigating those matters and seeking to commence recovery proceedings against directors and potentially other related parties. Any actions would only be answered if:

- We received legal advice that the claims had a reasonable prospect of success;
- We were satisfied that there was sufficient prospects of recovering funds to make the action a value accretive exercise for creditors (i.e. that the relevant directors or related parties had sufficient means to satisfy a judgement or settlement, including the legal and court costs we would incur in pursuing the action); and
- The committee of inspection was supportive, having had the circumstances (if appointed) disclosed fully to them.

In the event that creditors resolve to place the BBY Companies, or part thereof into liquidation further investigation is required including possibility of lodging a report with ASIC pursuant to s438D.

9.11 Voidable transactions

Unfair preferences

Assuming the BBY Companies were insolvent, claims are potentially available under the Act to a liquidator to overturn transactions where a creditor of an insolvent company received preferential payments during six months prior to the date of the Administration that resulted in them receiving more than they would have received if the payment were set aside and they ranked for a dividend in the winding up. The period is extended to four years for related entities.

Our preliminary review focussed on the trading entity, BBY, particularly larger payments and those to parties that arguably may have had some reason to suspect insolvency. We identified that, during the six months prior to the Administration, approximately \$1.4 million was paid to the following four creditors:

- ATO in respect of PAYG of \$777,077 and GST arrears of \$80,000, totalling \$857,077;
- GBST, in respect of financial services software licensing totalling \$81,830;

- less, in respect of financial services software licensing totalling \$360,556; and
- Agility, in respect of IT services totalling \$100,000.

We have not formed conclusive views as to whether any of these payments may have been preferential (and this depends on the insolvency issue). There are various statutory defences available to creditors, including good faith and running account balances.

Uncommercial transactions

A transaction of a company is an uncommercial transaction if the following elements are established by a liquidator:

- The transaction was entered into or given effect to within two years of the date of appointment of the Administrators; and
- At the time the transaction was entered into, or when given effect to, the company was insolvent or became insolvent as a result of the transaction; and
- A reasonable person in the company's circumstances would not have entered into the transaction having regard to the benefits and detriments to the company in entering into the transaction and the respective benefits to other parties.

We have not identified any possible uncommercial transactions.

Unreasonable payments to directors

Section 588FDA provides that a transaction of a company may be determined to be an unreasonable director related transaction of the company if the transaction was with a director or their associate and that it may be expected that a reasonable person in the company's circumstances would not have entered into the transaction, having regard to the respective benefits (or detriment) to the BBY Companies and other parties.

Our preliminary review has identified a number of transactions that occurred between BBY Companies and related parties, as discussed earlier.

In the event of winding up, further investigation would be required to determine whether these transactions constitute unreasonable payments to directors.

Transactions to defeat creditors

Section 588FE of the Act provides for transactions to be voidable if the transaction was designed to defeat, delay or interfere with the rights of creditors.

We have not identified any transactions that meet this criteria.

9.12 Other investigations

Arrangements to avoid employee entitlements

Part 5.8A of the Act contains provisions designed to protect the entitlements of employees from agreements by a company that deliberately defeat the recovery of those entitlements in the event of that company's insolvency. We have not identified any such transactions.

Voidable charges

Section 588FJ of the Act provides the circumstances whereby some securities granted by a company might be void as against a liquidator.

We have not identified any potentially voidable charges.

Directors' personal financial positions

In certain circumstances, the directors may become personally liable for losses incurred by creditors and where related party transactions are overturned. Should recovery actions be contemplated against any of the directors, it would be necessary to consider their insurance cover as well as their personal financial positions and ability to meet any claim.

We have not yet had an opportunity to assess the financial ability of individual directors to meet any claims. As noted earlier, Glenn and Ken Rosewall have evidenced a capacity in the past to raise funds however we do not have knowledge of their current financial position. If the BBY Companies are placed into liquidation and we identify that there may be director liabilities we would seek to determine the financial positions of the Directors as part of any consideration of recovery actions.

Client Money Accounts

We have undertaken a process to review and reconcile the CMA of BBY. The Administrators have identified approximately 60 trust accounts. We have commenced a process to reconcile each of the trust accounts to company records. This process is extensive and will not be completed prior to the second creditors meeting.

As part of the reconciliation process the Administrators have potentially identified a shortfall in the various CMAs totalling approximately \$10.0 million. Please note, the shortfall is indicative and is subject to a full reconciliation of all known trust accounts.

We are continuing to investigate discrepancies in the CMAs.

Uncoded transactions

The Administrators have identified \$13.6 million of uncoded transactions in the SAP accounting system for the six month period November 2014 to May 2015. In the event of a winding up, further investigation is required to determine whether these transactions are legitimate.

Former employee transactions

The Administrators have identified approximately \$2.1 million (for the period July 2012 to February 2015) of Amex expenses incurred by the former CEO of BBY. The Administrators have not had the opportunity to verify these transactions. In the event of a winding up, further investigation is required to determine whether these transactions are legitimate.

10. Estimated return from a winding up (liquidation)

The purpose of a liquidation of an insolvent company is to have a Liquidator take control of the company so that its affairs can be wound up in an orderly and fair way for the benefit of all creditors. Set out in Appendix E is an analysis of estimated returns to creditors and clients in the event of liquidation of the companies, with a focus on BBY Ltd. On the basis that the value of asset realisations and costs has not been disclosed by the Receivers, we have assumed no funds from asset realisations will become available for ordinary unsecured creditors.

Our investigations into BBY affairs have identified various courses of action a Liquidator could undertake to pursue recoveries. These would be available for distribution to unsecured creditors should they be successful.

10.1 Funding available for liquidators recoveries

In Section 9 of this report we have identified \$8.4 million of transactions which a Liquidator may be able to pursue on behalf of creditors. Should these actions be successful the benefit of recoveries would flow directly to unsecured creditors. At this stage, insufficient funding is available to fund litigation, the liquidators and creditors may explore alternative funding options which may include:

- An individual or a group of creditors may provide funding for the Liquidators to pursue recovery actions, the costs of which would rank in priority to other creditor claims
- Arrange for litigation funding by speculative litigation funders who often share in the proceeds from successful action
- Apply to ASIC for funding from the "Assetless Administration Fund" if the liquidator suspects the Directors have committed offences under the Corporations Act

Should creditors resolve to place the company in Liquidation, the Liquidators would assess all funding options and consult with the creditors accordingly.

10.2 Estimated returns from winding up

The subsequent pages contain information on the effect of a Liquidation on each class of creditors being employees, trade creditors (including subcontractors) and clients. Below is a summary of the expected distributions to each class:

BBY Group - Estimated Outcome Summary												
\$ cents in dollar	BBY		BBYH		BBYAS		BSA		BBYHT		STL	
	L	H	L	H	L	H	L	H	L	H	L	H
Secured creditor	ND	ND	ND	ND	ND	ND	ND	ND	NA	NA	ND	ND
Employees / Priority	NA	NA	NA	NA	NA	NA	100%	100%	NA	NA	NA	NA
Unsecured creditors	0%	24%	0%	0%	0%	0%	0%	1%	0%	0%	0%	0%

Key

L = Low
H = High
ND = Not disclosed
NA = Not applicable

Full details of the attached calculation are provided in Appendix E.

11. Effect of Liquidation on classes of creditors

11.1 Employees

Where a staff member's employment has been terminated as a consequence of an insolvency their employee entitlements are afforded a statutory priority under the Act out of any available funds. These include any outstanding wages, pay in lieu of notice, superannuation, annual leave, long service leave and redundancy. There are certain caps in relation to 'excluded employees' including directors.

FEG only available to redundant employees of companies in Liquidation

As from 5 December 2012 the FEG scheme replaced the former General Employee Entitlements and Redundancy Scheme ("GEERS"), meeting certain entitlements of eligible employees of companies in liquidation. We have not received a proposal for a DOCA of BSA, the employing entity of BBY, and expect that it is likely creditors will resolve to place BSA in liquidation in which circumstance the Liquidators can apply to FEG for funding on behalf of employees.

The FEG scheme does not extend to subcontractors. Subcontractors are treated as unsecured creditors under the Corporations Act and are unable to participate in a FEGs distribution.

The FEG payment scheme

FEG is a basic payment scheme, established under the Fair Entitlements Guarantee Act 2012, to assist employees whose employment has ended due to an insolvency event with their employer. Where there are insufficient funds available, FEG provides financial assistance, called an advance, to cover certain employment entitlements including:

- Wages - up to 13 weeks of unpaid wages (including commissions in most cases)
- Annual leave and long service leave
- Payment in lieu of notice to a maximum of 5 weeks
- Redundancy pay to a maximum of 4 weeks per full year of service.

To be eligible for Fair Entitlements Guarantee (FEG) assistance, former employees must meet all of the eligibility requirements outlined in the Fair Entitlements Guarantee Act 2012. The scheme does not apply whilst a company is in voluntary administration, however in the event that creditors resolve to place the companies into liquidation at the second meeting of creditors, FEGS may be available to employees if required.

Additional information for employees can be found on the FEG site at www.deewr.gov.au/fair-entitlements-guarantee-feg

11.2 Trade creditors (including subcontractors)

A liquidator has the benefit to recover certain transactions for the benefit of all creditors. As discussed in Section 10 of this report this may include recovery action against the Directors or other related parties to the Directors.

A Liquidator may also pursue certain payments (known as unfair preferences) made by the company to individual creditors in the six months before the start of the liquidation. Broadly, a creditor receives an unfair preference if, during the six months prior to liquidation, the company is insolvent, the creditor suspects the company is insolvent, and receives payment of their debt (or part of it) ahead of other creditors. To be considered an unfair preference, the payment must put the creditor receiving it in a more favourable position than other unsecured creditors. Not all payments from the company to a creditor in the six months before liquidation are unfair preferences. The Corporations Act provides various defences to an unfair preference claim.

11.3 Clients

Client entitlements to monies held in CMA's will need to be carefully reviewed and adjudicated with the benefit of court direction. That process is outlined in detail in section 4 above where we have outlined the relevant considerations for clients

If there are shortfalls in client monies, affected clients will suffer a loss which would constitute an unsecured claim against BBY. In that situation, clients constitute creditors of BBY and will be subject to the same considerations in liquidation as trade creditors as noted in section 11.2 above.

To the extent that clients have entitlements to client funds held by us, those funds will be distributed to clients once adjudications have occurred in liquidation. Those proceeds remain subject to trust and will not be shared with unsecured creditors.

12. Proposal for a Deed of Company Arrangement

12.1 Timeline of DOCA proposals

On 5 June 2015 DEM Australasia, who are advising AIMS, provided the Administrators with three separate Deeds of Company Arrangements (DOCAs) which aim to facilitate a creditor compromise and continuation of three separate parts of the BBY Companies. We received DOCAs for all companies with the exception of BBY Ltd, BSA, and BBYH, the pooled DOCAs being:

1. "Smart/Home" a pooled DOCA for BBY Smartrader and BBY Hometrader; and
2. "Advisory" for BBY Advisory

We considered the terms of the two DOCAs and identified a number of concerns with AIMS' original proposals with respect to the overall benefit afforded to creditors. We also negotiated with two other parties who had expressed interest in proposing a similar DOCA for Smart/Home who have now withdrawn.

On 9 June 2015 we provided feedback to DEM Australasia on our concerns with the DOCA proposals. We shared similar concerns across each DOCA in relation to the timing of cash contributions, which was addressed in a revised group of DOCAs proposed by AIMS on 10 June 2015.

Set out below is a summary of the key DOCA terms we have received from the most recent proposals:

Summary of BBY DOCA Proposals		
\$'000	Smart/Home	Advisory
Deed fund composition and distribution		
Composition		
Cash at appointment	60	-
Deed contribution	95	85
Total deed fund	155	85
Distribution of deed fund		
VA/DOCA fees	(45)	(45)
Legal fees	(15)	(10)
Total fees	(60)	(55)
Funds Available for Creditors	95	30
Participating Creditors	(304)	(496)
c/s (Approximate)	31%	6%

12.2 DOCA proposal terms

Smart/Home

A pooled DOCA has been proposed by AIMS which would have the effect of grouping Smartrader and HomeTrader creditors into one pool. The companies offer investor education programs for clients and online trading tools with commonality in terms of their operations and client base. In order to attain the highest possible contribution for the DOCAs, the Administrators prepared a three page information memorandum which was sent to 17 parties who had either expressed interest in the BBY companies or were key stakeholders to the business. We received three initial offers from different parties and ran a closed auction which sought to obtain the highest binding DOCA proposal from interested parties. AIMS were the only interested party who provided a binding offer and showed proof of funding by depositing cash into the trust account of our legal advisors, Ashurst. DOCA offers from other interested parties withdrew during negotiations process. Below are details of the offer proposed by AIMS:

- Ian Hall and Stephen Vaughan be appointed as Deed Administrators;
- A contribution of \$95,000 be put towards the establishment of a deed fund, in addition to \$60,000 of cash already held in the company forming a total deed fund of \$155,000;

- \$45,000 of the deed fund be put towards fees and costs, \$15,000 to legal fees and the remaining \$95,000 be made available to ordinary unsecured creditors;
- The Deed Administrators are required to call Board meetings to appoint new directors selected by AIMS;
- The DOCA be terminated upon a final distribution of the net proceeds to ordinary unsecured creditors, or as otherwise provided for in the Corporations Act; and
- The claims of all creditors against Smartrader and Hometrader will be extinguished upon satisfaction of the DOCA.

In our opinion, the DOCA proposed for Smartrader and Hometrader provides for the continuation of the business and a reasonable compromise with creditors of those businesses which does not prejudice their respective positions. Section 14 of this report will conclude that the Administrators recommend that creditors **accept** the DOCA proposal for Smartrader and Hometrader.

Advisory

BBY Advisory operated BBY's corporate finance business and also forms part of STG's security. Below are details of the DOCA proposed by AIMS for creditor's consideration:

- Ian Hall and Stephen Vaughan be appointed as Deed Administrators and a client trust be established for the distribution of proceeds;
- A contribution of \$85,000 be put towards the establishment of a deed fund, with \$45,000 of this applied to fees and costs, \$10,000 to legal fees, and the remaining \$30,000 be made available to ordinary unsecured creditors;
- Any asset realisations with the exception of intellectual property, licences, work in progress and interest held on behalf of clients will form part of the deed fund, although we attribute minimal value to these;
- It is proposed that the Deed come into operation once STG release their security and the cash contribution has been made;
- The Deed Administrators are required to call a Board meeting to appoint new directors selected by AIMS;
- The DOCA be terminated upon a final distribution of the proceeds to ordinary unsecured creditors, or as otherwise provided for in the Corporations Act; and
- The claims of all creditors against BBY Advisory will be extinguished upon satisfaction of the DOCA

The proposed DOCA provides for a small return to unsecured creditors of BBY Advisory and it does provide a degree of certainty in returns which should be weighed up by creditors. The Receivers have not disclosed the likelihood of a return to unsecured creditors after the bank has been repaid from realisations of BBY group assets, however we believe this is unlikely. Section 14 of this report will conclude that the Administrator recommend creditors accept the DOCA proposed for BBYAS.

Nominee companies

As noted above in section 12, AIMS also submitted a DOCA proposal in respect of the four nominee companies. We have noted that we require further time to review the books, records and offices of those companies before being in a position to form an opinion for the purpose of creditors voting on the AIMS proposal.

We have sought an extension of the convening period in respect of the four nominee companies and will report to affected creditors in due course.

12.3 Comparison of returns from a DOCA and liquidations

BBY Companies - Comparison of Liquidation as Compared to DOCA							
%	BBY Ltd (Receivers Appointed)	BBY Holdings Pty Ltd (Receivers Appointed)	BBY Advisory Services Pty Ltd (Receivers Appointed)	Broker Services Australia Pty Ltd	Hometrader Pty Ltd	BBY Ltd	SmarTrader Ltd
Estimated Return from Liquidation							
Low	0%	0%	0%	0%	0%	0%	0%
High	24%	0%	0%	14%	0%	0%	0%
Estimated return from DOCA							
DOCA	na	na	6%	na	31%	31%	

13. Options available to creditors

Pursuant to Section 439A(4)(b) of the Act, we provide creditors with a statement setting out our opinion for each of the BBY companies as to whether or not it is in creditors' interests for:

- The company to execute a Deed of Company Arrangement, or
- The Administration to end, or
- The company to be placed into Liquidation.

14. Administrators' Opinion

We advise that, in our opinion, it would be in the interests of creditors of each of the BBY companies:

Company	Opinion
No DOCA proposal	
BBY Limited	Liquidation
Broker Services Australia Pty Ltd	Liquidation
BBY Holdings Pty Limited	Liquidation
SmartHome DOCA	
SmartTrader Limited	Execute a DOCA
BBY Hometrader Pty Ltd	Execute a DOCA
Advisory	
BBY Advisory Services Pty Ltd	Execute a DOCA

14.1 Rationale for Administrators' Opinion

BBY Limited

We recommend the company's creditors resolve that the company be **placed into liquidation and wound up**. We have not received a proposal for a DOCA and given the financial state of the company we do not believe it should be returned to the control of the directors. There are also significant investigative matters which we recommend are pursued in litigation for the prospective benefit of creditors and public policy reasons.

Broker Services Australia Pty Ltd

We recommend the company's creditors resolve that the company be **placed into liquidation and wound up**. We have not received a proposal for a DOCA and given the financial state of the company we do not believe it should be returned to the control of the directors.

BBY Holdings Pty Limited

We recommend the company's creditors resolve that the company be **placed into liquidation and wound up**. We have not received a proposal for a DOCA and given the financial state of the company we do not believe it should be returned to the control of the directors.

SmartTrader Limited

We have received a DOCA which we estimate will provide a better return to creditors as compared to winding up, we recommend the company's creditors resolve to **execute the DOCA**. Given the financial state of the company we do not believe it should be returned to the control of the directors.

BBY Hometrader Pty Ltd

We have received a DOCA which we estimate will provide a better return to creditors as compared to winding up, we recommend the company's creditors resolve to **execute the DOCA**. Given the financial state of the company we do not believe it should be returned to the control of the directors.

BBY Advisory Services Pty Ltd

We have received a DOCA which we estimate will provide a better return to creditors as compared to winding up, we recommend the company's creditors resolve to **execute the DOCA**. Given the financial state of the company we do not believe it should be returned to the control of the directors.

15. Remuneration

This section of our report summarises key aspects of the Administrators' claim for remuneration as well as the expected prospective remuneration of a Liquidator or Deed Administrator if appointed.

Creditors may approve fees of an administrator by passing a resolution at a creditors' meeting and we will seek various resolutions in approval of the Administrators' fees at the Second Meetings.

Attached at Appendix I is an information sheet by ARITA providing general information for creditors on approving remuneration in external administrations.

Further details of remuneration together with the resolutions that will be proposed at the Second Meetings, are set out in the Administrator's Remuneration Report attached as Appendix J.

In our first circular to creditors dated 20 May 2015, we provided creditors with a Remuneration Advice that noted that we proposed to charge fees on time based / hourly rates basis. We attached a guide to hourly rates which included the following:

15.1 KPMG Restructuring Services guide to hourly rates

Grade	Hourly rate (excl GST)
Partner or Appointee	\$650
Director	\$600
Associate Director	\$550
Manager	\$500
Executive	\$350
Senior Analyst	\$250
Analyst	\$200
Administration	\$140

The proposed hourly rates are based on our costs of running an insolvency business, including KPMG's professional staff and other overheads, and are generally similar to many other insolvency professionals.

15.2 Administrators' remuneration to 22 June 2015

The attached remuneration report sets out detail of the Administrators remuneration claim in respect to each company.

The work undertaken by administrators depends on the type of administration concerned and the issues that need to be resolved. Some issues are straightforward, while others are more complex. However, what is common amongst all administration types is that an administrator is, by law, required to undertake a number of tasks which may not directly benefit creditors (for example, the preparation of reports to ASIC or the preparation and lodgement of accounts of receipts and payments). An administrator is entitled to reasonable remuneration for work performed including statutory tasks. Creditors have an interest in the level of fees and costs, as the administrator will, generally, be paid from the company's available assets before any payments to creditors are made.

The Administrators have not received any remuneration to date for work performed in the Administration.

We will seek approval of the following remuneration by creditors at the second meetings, via formal resolutions, as set out in the attached Agenda of the meeting:

1. Based on the hourly rates set out in our Remuneration Advice, total proposed remuneration of the Administrators for the period from 17 May 2015 to 5 June 2015 is \$681,451 (excluding GST), broken down as follows:
 - BBY Holdings Pty Limited \$17,379
 - BBY Limited \$481,954
 - Broker Services Australia Pty Ltd \$133,638
 - BBY Advisory Services Pty Ltd \$13,912
 - SmarTrader Limited \$17,184
 - BBY Hometrader Pty Ltd \$17,184
2. We estimate that further costs from 6 June 2015 to the date of the second meetings on 22 June 2015 may be up to \$617,768 (excluding GST), broken down as follows:
 - BBY Holdings Pty Limited \$7,637
 - BBY Limited \$463,613
 - Broker Services Australia Pty Ltd \$82,691
 - BBY Advisory Services Pty Ltd \$6,303
 - SmarTrader Limited \$28,887
 - BBY Hometrader Pty Ltd \$28,637

15.3 Liquidators' remuneration

If creditors resolve that each company in the BBY Companies be placed into liquidation and that the Administrators be appointed as liquidators, then we propose that the Liquidators' remuneration be calculated on the basis of time spent by us, and our staff, based upon the KPMG Restructuring Services guide to hourly rates (the same basis as the Administrators' remuneration).

In the event the BBY Companies are placed into liquidation and the Administrators are appointed liquidators, we propose that the Liquidators' future fees be approved up to an amount of \$500,000 plus GST and disbursements, based on the time spent by the Liquidators and their staff in respect of the liquidation based upon the KPMG Restructuring Services guide to hourly rates. We anticipate that a Committee of Inspection will be formed at a second meeting of creditors.

Prospective remuneration approval will be sought from creditors at the second meeting. Further particulars are set out in the Administrators' remuneration Report attached as Appendix J.

A liquidation may run for a lengthy period if various claims are pursued. The Liquidators' total fees in conducting a liquidation and pursuing any recovery actions may exceed the above proposed approval. Any remuneration sought over and above the approved amount will be subject to further approval from creditors.

15.4 Deed Administrators' remuneration (if DOCA approved)

The Administrators received three DOCAs from the AIMS Group, which was discussed in detail earlier in this report. At this meeting we will only be presenting two DOCAs to creditors for voting purposes. We would propose a resolution that the Deed Administrators' future fees be approved as follows, for the cost of time spent by the Deed Administrators and their partners and staff, calculated at rates set under the KPMG Restructuring Services guide to hourly rates.

- BBY Advisory Services Pty Ltd (capped to \$45,000)
- SmarTrader Limited and BBY Hometrader Pty Ltd (capped to \$45,000)

These fees would cover the work associated with dealing with asset realisations if applicable, adjudicating on proofs of debt for trade creditors and making distributions, as well as completing statutory tasks.



16. Appendices



A. Instrument of Appointment

INSTRUMENT OF APPOINTMENT OF AN ADMINISTRATOR

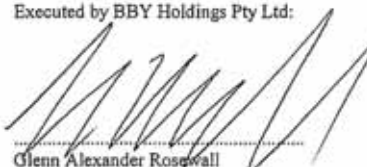
BBY Holdings Pty Ltd ACN 075 187 432

("the Company")

In accordance with a resolution passed at a meeting of the Company's directors at 11:30p.m. on 17 May 2015, duly convened and held at level 17, 60 Margaret Street, Sydney, NSW, the Company hereby appoints Stephen Ernest Vaughan and Ian Richard Hall of KPMG, care of 10 Shelley Street, Sydney, New South Wales as Joint and Several Administrators of the Company pursuant to Section 436A(1) of the Corporations Act 2001 (Cth) (Corporations Act), to exercise any and all of the powers conferred upon an administrator by the Corporations Act.

Dated 17 May 2015

Executed by BBY Holdings Pty Ltd:



Glenn Alexander Rosewall

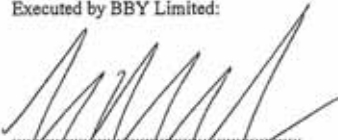
INSTRUMENT OF APPOINTMENT OF AN ADMINISTRATOR

BBY Limited ACN 006 707 777
("the Company")

In accordance with a resolution passed at a meeting of the Company's directors at 11:30am on 17 May 2015, duly convened and held at level 17, 60 Margaret Street, Sydney, NSW, the Company hereby appoints Stephen Ernest Vaughan and Ian Richard Hall of KPMG, care of 10 Shelley Street, Sydney, New South Wales as Joint and Several Administrators of the Company pursuant to Section 436A(1) of the Corporations Act 2001 (Cth) (**Corporations Act**), to exercise any and all of the powers conferred upon an administrator by the Corporations Act.

Dated 17 May 2015

Executed by BBY Limited:


.....
Glenn Alexander Rosewall

INSTRUMENT OF APPOINTMENT OF AN ADMINISTRATOR

Broker Services Australia Pty Ltd ACN 074 976 364
("the Company")

In accordance with a resolution passed at a meeting of the Company's directors at 11:03am on 17 May 2015, duly convened and held at level 17, 60 Margaret Street, Sydney, NSW, the Company hereby appoints Stephen Ernest Vaughan and Ian Richard Hall of KPMG, care of 10 Shelley Street, Sydney, New South Wales as Joint and Several Administrators of the Company pursuant to Section 436A(1) of the Corporations Act 2001 (Cth) (**Corporations Act**), to exercise any and all of the powers conferred upon an administrator by the Corporations Act.

Dated 17 May 2015

Executed by Broker Services Australia Pty Ltd:


.....
Glenn Alexander Rosewall

INSTRUMENT OF APPOINTMENT OF AN ADMINISTRATOR

BBY Advisory Services Pty Limited ACN 102 761 008
("the Company")

In accordance with a resolution passed at a meeting of the Company's directors at 11:03am on 17 May 2015, duly convened and held at level 17, 60 Margaret Street, Sydney, NSW, the Company hereby appoints Stephen Ernest Vaughan and Ian Richard Hall of KPMG, care of 10 Shelley Street, Sydney, New South Wales as Joint and Several Administrators of the Company pursuant to Section 436A(1) of the Corporations 2001 (Cth) (Corporations Act), to exercise any and all of the powers conferred upon an administrator by the Corporations Act.

Dated 17 May 2015

Executed by BBY Advisory Services Pty Limited:



Glenn Alexander Rosewall

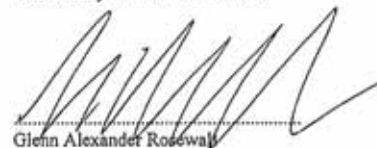
INSTRUMENT OF APPOINTMENT OF AN ADMINISTRATOR

SmarTrader Limited ACN 115 752 102
("the Company")

In accordance with a resolution passed at a meeting of the Company's directors at 11:03am on 17 May 2015, duly convened and held at level 17, 60 Margaret Street, Sydney, NSW, the Company hereby appoints Stephen Ernest Vaughan and Ian Richard Hall of KPMG, care of 10 Shelley Street, Sydney, New South Wales as Joint and Several Administrators of the Company pursuant to Section 436A(1) of the Corporations Act 2001 (Cth) (Corporations Act), to exercise any and all of the powers conferred upon an administrator by the Corporations Act.

Dated 17 May 2015

Executed by SmarTrader Limited:



Glenn Alexander Rosewall

INSTRUMENT OF APPOINTMENT OF AN ADMINISTRATOR


BBY Hometrader Pty Ltd ACN 134 838 207

("the Company")

In accordance with a resolution passed at a meeting of the Company's sole director at ~~11:03pm~~ on 17 May 2015, duly convened and held at level 17, 60 Margaret Street, Sydney, NSW, the Company hereby appoints Stephen Ernest Vaughan and Ian Richard Hall of KPMG, care of 10 Shelley Street, Sydney, New South Wales as Joint and Several Administrators of the Company pursuant to Section 436A(1) of the Corporations Act 2001 (Cth) (Corporations Act), to exercise any and all of the powers conferred upon an administrator by the Corporations Act.

Dated 17 May 2015

Executed by BBY Hometrader Pty Ltd


Glenn Alexander Rosewall

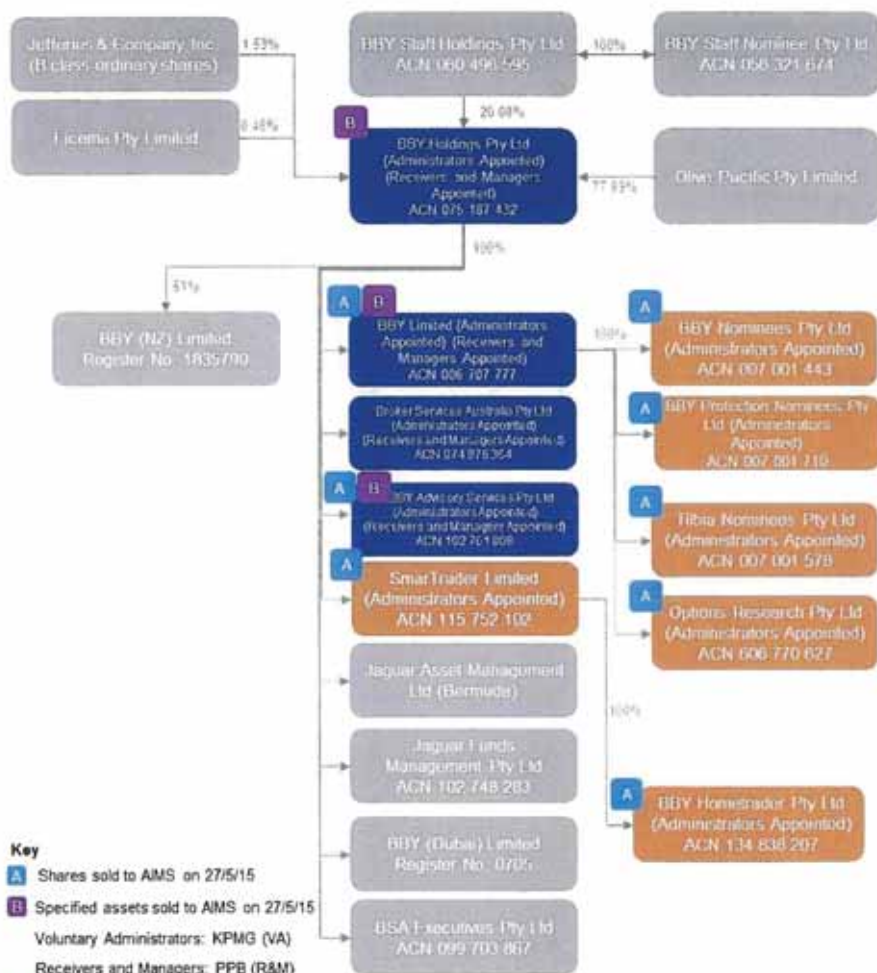
B. Current directors

A search of the ASIC database reveals the following:

Company	Director	Date appointed
BBY Holdings Pty Limited	Ken Rosewall	17 March 2008
BBY Holdings Pty Limited	Glenn Rosewall	17 November 2004
BBY Holdings Pty Limited	David Perkins	30 March 2006
BBY Limited	Ken Rosewall	17 March 2008
BBY Limited	Glenn Rosewall	22 December 2004
BBY Limited	David Perkins	30 March 2006
Broker Services Australia Pty Ltd	Glenn Rosewall	17 November 2004
Broker Services Australia Pty Ltd	David Perkins	8 August 2006
BBY Advisory Services Pty Ltd	Ken Rosewall	21 December 2005
BBY Advisory Services Pty Ltd	Glenn Rosewall	8 November 2002
BBY Nominees Pty Ltd	Glenn Rosewall	22 December 2004
BBY Protection Nominees Pty Ltd	Glenn Rosewall	22 December 2004
Options Research Pty Ltd	Glenn Rosewall	22 December 2004
Tilbia Nominees Pty Ltd	Glenn Rosewall	22 December 2004
BBY Hometrader Pty Ltd	Glenn Rosewall	23 August 2011
SmarTrader Limited	Ken Rosewall	21 April 2015
SmarTrader Limited	Glenn Rosewall	23 August 2011
SmarTrader Limited	David Perkins	24 March 2015

Source: ASIC Company Search and minutes

C. BBY Group structure



- Key**
- A Shares sold to AIMS on 27/5/15
 - B Specified assets sold to AIMS on 27/5/15
 - Voluntary Administrators: KPMG (VA)
 - Receivers and Managers: PFB (R&M)
 - R&M and VA appointed
 - VA appointed
 - No external appointment

Asset sales to AIMS excluded receivables and any Directors and Officers insurance policies
 Share sales excluded Dubai, New Zealand, Jaguar Asset Management, Jaguar Funds Management, Broker Services Aust. and BSA Executives

D. Directors RATA summary

RATAs for the remainder of the 4 companies placed into Administration is summarised below:

\$'000	BBY Advisory Services Pty Ltd		SmartTrader Limited		Broker Services Australia Pty Ltd		BBY Home trader Pty Ltd	
	Book value	ERV	Book value	ERV	Book value	ERV	Book value	ERV
Interests in land	Nil	Nil	Nil	Nil	N/A	N/A	Nil	Nil
Debtors	668	Unknown	229	Unknown	N/A	N/A	8	Unknown
Cash at bank	18	Nil	71	Unknown	N/A	N/A	81	Unknown
Stock	Nil	Unknown	Nil	Nil	N/A	N/A	Nil	Nil
Property, plant & equipment	Nil	Nil	Nil	Nil	N/A	N/A	Nil	Nil
Other assets - Deposits (bonds)	Nil	Nil	Nil	Nil	N/A	N/A	137	Nil
Total Current Assets	684	0	301	0	463	317	226	0
Amounts owing to secured creditor	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Amounts owing for employees	Nil	Nil	Nil	Nil	(1,434)	(1,434)	Nil	Nil
Preferential creditors	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Partly secured creditors	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Creditors	(482)	Unknown	(79)	Nil	(8,892)	Unknown	(147)	Nil
Contingent liabilities	Unknown	Nil	Nil	Nil	Unknown	Nil	Unknown	Nil
Total Liabilities	(482)	0	(79)	0	(10,326)	(1,434)	(147)	0
Estimated surplus (deficiency)	203	0	222	0	(9,863)	(1,117)	79	0

E. Estimated outcome statement

Estimated Outcome Statement	BBY Group Control BS	BBY Ltd (RAM Appl)	BBY Holdings Pty Ltd (RAM Appl)	BBY Advisory Services Pty Ltd (RAM Appl)	Low	High	Low	High
\$'000	Notes							
Non circulating assets available								
Asset Realisations to date								
Sale of assets to AME	A	-	200	200	ND	ND	ND	ND
Other Assets		458	ND	ND	ND	ND	ND	ND
Net non circulating asset realisations		458	200	200	-	-	-	-
Less amounts owing to secured creditor		-	ND	ND	ND	ND	ND	ND
Non circulating assets available		458	200	200				
Circulating assets available								
Cash		(10,762)	ND	ND	ND	ND	ND	ND
Receivables		75,137	ND	ND	ND	ND	ND	ND
Other financial assets		88	ND	ND	ND	ND	ND	ND
Other assets		2,738	ND	ND	ND	ND	ND	ND
Deferred tax asset		524	ND	ND	ND	ND	ND	ND
Distribution to secured creditor		-	ND	ND	ND	ND	ND	ND
Less realisation costs		-	ND	ND	ND	ND	ND	ND
Total circulating assets available		67,723						
Less fees and costs								
Receivers fees	B	-	ND	ND	ND	ND	ND	ND
Receivers disbursements	B	-	ND	ND	ND	ND	ND	ND
Administrators and liquidator fees	C	-	(2,758)	(2,758)	(80)	(80)	(80)	(80)
Administrators and liquidator disbursements	C	-	(100)	(100)	-	-	-	-
Link services	D	-	(100)	(100)	-	-	-	-
Insurance	D	-	(80)	(80)	-	-	-	-
Legal fees	D	-	(900)	(1,000)	-	-	-	-
Other	D	-	-	-	-	-	-	-
Total costs and expenses			(3,536)	(4,058)	(80)	(80)	(80)	(80)
Net circulating assets available								
Shortfall in fees & costs		-	(3,536)	(3,858)	(80)	(80)	(80)	(80)
Priority distribution to employees								
Employees entitlements								
Funds available for employee entitlements from FEG	E	-	-	-	-	-	-	-
Other priority creditors	E	-	-	-	-	-	-	-
Cents in the dollar return for priority creditors								
Funds available to secured creditor								
Less remaining amounts owing to secured creditor			ND	ND	ND	ND	ND	ND
Circulating assets available								
Secured creditor distribution								
Circulating assets available after employees			ND	ND	ND	ND	ND	ND
Non circulating assets available			ND	ND	ND	ND	ND	ND
Outstanding amount due to secured creditor			ND	ND	ND	ND	ND	ND
Cents in the dollar return for secured creditor								
Unsecured creditor distribution								
Funds available to unsecured creditors from asset realisations								
Liquidators' recovery actions	F	-	7,967	80	-	-	-	-
Fees and costs shortfall (from above)		-	(3,358)	(3,858)	(80)	(80)	(80)	(80)
Total funds available to unsecured creditors				3,788				
Unsecured creditors (incl inter-creditors)			(13,817)	(13,817)	(821)	(821)	(496)	(496)
Shortfall of client monies			(14,500)	(1,800)	-	-	-	-
Cents in the dollar return for unsecured creditors			0%	34%	0%	3%	0%	0%

Legend:
ND = Not disclosed by Receivers

Estimated Outcome Statement	BBY Group Control BS	BBY Services Available Pty Ltd	BBY Multi-Trust Pty Ltd	BBY Trustee Ltd			
\$'000	Notes	Low	High	Low	High	Low	High
Non circulating assets available							
Asset Realisations to date							
Sale of assets to AME	A	-	ND	ND	-	-	-
Other Assets		458	ND	ND	-	-	-
Net non circulating asset realisations		458	-	-	-	-	-
Less amounts owing to secured creditor		-	ND	ND	-	-	-
Non circulating assets available		458					
Circulating assets available							
Cash		(10,762)	ND	ND	10	10	81
Receivables		75,137	ND	ND	-	-	-
Other financial assets		88	ND	ND	-	-	-
Other assets		2,738	ND	ND	-	-	-
Deferred tax asset		524	ND	ND	-	-	-
Distribution to secured creditor		-	ND	ND	-	-	-
Less realisation costs		-	ND	ND	-	-	-
Total circulating assets available		67,723			10	10	81
Less fees and costs							
Receivers fees	B	-	ND	ND	-	-	-
Receivers disbursements	B	-	ND	ND	-	-	-
Administrators and liquidator fees	C	-	(245)	(245)	(84)	(84)	(72)
Administrators and liquidator disbursements	C	-	-	-	-	-	-
Link services	D	-	-	-	-	-	-
Insurance	D	-	-	-	-	-	-
Legal fees	D	-	-	-	-	-	-
Other	D	-	-	-	-	-	-
Total costs and expenses			(245)	(245)	(84)	(84)	(72)
Net circulating assets available							
Shortfall in fees & costs		-	(245)	(245)	(84)	(84)	(21)
Priority distribution to employees							
Employees entitlements			(2,727)	(2,727)	-	-	-
Funds available for employee entitlements from FEG	E	-	2,727	2,727	-	-	-
Other priority creditors	E	-	-	-	-	-	-
Cents in the dollar return for priority creditors			100%	100%			
Funds available to secured creditor							
Less remaining amounts owing to secured creditor			ND	ND	-	-	ND
Circulating assets available							
Secured creditor distribution							
Circulating assets available after employees			ND	ND	-	-	-
Non circulating assets available			ND	ND	-	-	-
Outstanding amount due to secured creditor			ND	ND	-	-	ND
Cents in the dollar return for secured creditor			ND	ND			ND
Unsecured creditor distribution							
Funds available to unsecured creditors from asset realisations							
Liquidators' recovery actions	F	-	777	-	-	-	-
Fees and costs shortfall (from above)		-	(245)	(245)	(84)	(84)	(21)
Total funds available to unsecured creditors				532			
Unsecured creditors (incl inter-creditors)			(3,915)	(3,915)	(80)	(80)	(214)
Shortfall of client monies			-	-	-	-	-
Cents in the dollar return for unsecured creditors			0%	14%	0%	0%	0%

Legend:
ND = Not disclosed by Receivers

The Receivers have not disclosed asset realisation amounts to us in order for us to fully establish the estimated outcomes. We are however of the view that it is unlikely distributions will become available after secured creditor realisations. We comment on each of the categories included in balance sheet below.

- Asset realisation represent net sale proceeds distributed to BBY Ltd as part of the sale and purchase agreement, net of secured creditor realisations
- The Receivers have not advised of the amount of their fees or costs which are deducted from asset realisations
- Administrators and liquidators fees and costs are fully disclosed in the attached remuneration report.
- Estimated other costs which may be incurred by a liquidator, particularly legal fees in perusing transactions on behalf of creditors.

- E. Only BSA, the employing entity, has employees whose entitlements will be underwritten by FEGs if there is a shortfall in circulating assets.
- F. Represents potential liquidator's recoveries as discussed in the body of the report.

F. Proposed Deed of Company Arrangement



DEM AUSTRALASIA

**BBY HOMETRADER PTY LTD. (ACN 134 838 207)
SMARTRADER LIMITED (ACN 115 752 102)
(ADMINISTRATORS APPOINTED)**

**PROPOSAL FOR DEED OF COMPANY
ARRANGEMENT
11 JUNE 2015**

PROPOSER: BBY ASIA PACIFIC GROUP HOLDINGS PTY LIMITED (ACN 602 817 809)

Background to Proposal

The proposer BBY Asia Pacific Group Holdings Pty Limited ("BBYAP") is the sole shareholder of each of BBY HomeTrader Pty Ltd. (ACN 134 838 207) and SmarTrader Limited (ACN 115 752 102) (together, the "Companies"). The Companies offered certain investor tools for BBY clients which were accessible remotely, including investor training programmes.

Proposal terms

BBYAP proposes that the Companies enter into a pooled deed of company arrangement (a "DOCA") under which BBYAP will make a cash contribution of \$95,000 into a deed fund for the benefit of creditors and the payment of certain other administration costs (the "Deed Fund").

The key terms of the proposed DOCA are as set out below.

1. Deed Administrators

It is proposed that the voluntary administrators of the Companies, Stephen Vaughan and Ian Hall of KPMG (the "Administrators") act as Deed Administrators of the DOCA.

2. Property of the Companies available to pay creditors' claims

Creditors' claims will be paid from the Deed Fund. The Deed Fund shall comprise:

- (a) any residual cash amount held by the Administrators; and
- (b) a contribution from BBYAP of \$95,000 (the "Deed Contribution") which shall be paid into the trust account of Ashurst, the legal advisers to the Administrators, in advance of the creditors' meeting pending distribution in accordance with the terms of the proposed DOCA.

3. Nature and duration of the Moratorium

The moratorium on claims by persons bound by the DOCA (the "Deed Creditors") will be that provided for by the Corporations Act (especially sections 444C, 444D and 444E) and will continue until the DOCA has been terminated.

4. Extent to which the Companies' debts are extinguished.

The claims of all Deed Creditors against the Companies will be extinguished on satisfaction of the DOCA.

5. Condition for DOCA to come into operation

Subject to section 444C, the DOCA will come into effect immediately following the meeting of creditors approving the deed.

6. Conditions for the DOCA to continue in operation

None. Subject to the DOCA coming into operation, the DOCA will be fully effectuated and the Companies will be returned to the control of their respective directors once the Deed Fund has been fully distributed.

7. Termination of the DOCA

7.1 The DOCA will terminate:

- (a) if BBYAP fails to make the Deed Contribution to the Deed Fund and such default remains unremedied for fifteen (15) business days after notice is given by the Deed Administrators;
- (b) when the Deed Administrators lodge a notice with ASIC that the deed has been fully effectuated; or
- (c) otherwise, as provided for by the Corporations Act (especially sections 445D and 445F).

7.2 Prior to Termination

Immediately before lodging the notice with ASIC, the Deed Administrators will convene a meeting of the board of directors of each Company to remove the current directors and appoint new directors nominated by BBYAP.

8. Order that property referred to in paragraph 2 will be distributed among creditors bound by the DOCA

8.1 Order of payment from the Deed Fund.

Payment from the Deed Fund will be made in accordance with the provisions of section 556 of the Corporations Act as though the Companies were in liquidation, to the extent that funds are available:

- (a) **first** - the remuneration and expenses incurred by the Administrators and Deed Administrators (to the extent to which these have not been paid), capped at an amount of \$35,000 in respect of remuneration for

the Administrators, \$10,000 in respect of remuneration for the Deed Administrators and \$10,000 in respect of legal expenses of the Administrators and \$5,000 in respect of legal expenses of the Deed Administrators.

- (b) **second** – any creditors who would be entitled to payment in priority to unsecured creditors in the winding up including creditors entitled to the proceeds of insurance under section 562 of the Act and employee entitled to payments under section 556 of the Act.
- (c) **third** – the claims of any unsecured creditors (whose claims are admitted by the Deed Administrators) on a *pari passu* basis.

8.2 Remuneration

Subject to it being fixed in accordance with the Corporations Act (section 449E), the remuneration referred to in paragraph 8.1 will be calculated at the rates normally charged by the Deed Administrators' firm.

9. Role and powers of the Deed Administrators

- (a) The Deed Administrators will have the powers set out in paragraph 2 of Schedule 8A of the Act.
- (b) Other than as referred to in paragraph 9(a), the prescribed provisions of Schedule 8A of the Act shall not apply.
- (c) The Deed Administrators will not be personally liable for any debt they incur and shall be entitled to an indemnity from the assets of the Deed Fund.
- (d) Proofs of debt for the Deed Fund shall be lodged and dealt with and creditors meetings convened and conducted as provided for in the Corporations Act, as if the Companies were in liquidation.

BBY ADVISORY SERVICES PTY LTD (ACN 102 761 008) (ADMINISTRATORS APPOINTED)

PROPOSAL FOR DEED OF COMPANY ARRANGEMENT 11 JUNE 2015

PROPOSER: BBY ASIA PACIFIC GROUP HOLDINGS PTY LIMITED (ACN 602 817 809)

Background to Proposal

The proposer BBY Asia Pacific Group Holdings Pty Limited ("BBYAP") is the sole shareholder of BBY Advisory Services Pty Ltd (the "Company"). The Company operated the Corporate Finance business of the BBY group of companies. The Company does not hold any third party or client assets. The assets of the Company (excluding accounts receivable and intercompany debts) were acquired by BBYAP from its voluntary administrators, Stephen Vaughan and Ian Hall of KPMG (the "Administrators") on 27 May 2015.

Proposal terms

BBYAP proposes that the Company enters into a Deed of Company Arrangement ("DOCA") under which BBYAP will make a cash contribution of \$85,000 into a deed fund for the benefit of creditors and the payment of certain other administration costs (the "Deed Fund").

The key terms of the proposed DOCA are as set out below.

1. Deed Administrators

It is proposed that the Administrators of the Company act as Deed Administrators.

2. Property of the Company available to pay creditors' claims

Creditors' claims will be paid from the Deed Fund. The Deed Fund shall comprise:

- (a) any residual cash amount held by the Administrators;
- (b) a contribution from BBYAP of \$85,000 which shall be paid into the trust account of Ashurst, the legal advisers to the Administrators, in advance of the creditors' meeting pending distribution in accordance with the terms of the proposed DOCA; and

- (c) all Excluded Assets, which shall be transferred out of the company into a separate creditor's trust established for this specific purpose, to be administered by the Deed Administrators or a suitable independent trustee.

"Excluded Assets" means all of the assets and rights of the Company other than:

- (i) all clients and client information;
- (ii) all intellectual property;
- (iii) all regulatory licences and consents, including the AFSL licence;
- (iv) all client mandates and engagements (including the benefit of all work product);
- (v) all work in progress and rights deriving therefrom; and
- (vi) any interest in securities held for or relating to a client.

3. Nature and duration of the Moratorium

The moratorium on claims by persons bound by the DOCA (the **"Deed Creditors"**) will be that provided for by the Corporations Act (especially sections 444C, 444D and 444E) and will continue until the DOCA has been terminated.

4. Extent to which the Company's debts are extinguished.

The claims of all Deed Creditors against the Company will be extinguished upon satisfaction of the DOCA.

5. Condition for DOCA to come into operation

Subject to section 444C, the DOCA will come into effect upon on satisfaction of the conditions below, provided each of these occur within 60 days of the date of the final meeting of creditors of the Company approving the deed:

- (a) payment of the Deed Contribution; and
- (b) the release by the receivers and managers of the Company, Brett Lord and Stephen Parbery of PPB Advisory, of all security over the assets of the Company.

6. Conditions for the DOCA to continue in operation

None. Subject to the DOCA coming into operation, the DOCA will be fully effectuated and the Company will be returned to the control of its directors once the Deed Fund has been fully distributed.

7. Termination of the DOCA

7.1 The DOCA will terminate:

- (a) if BBYAP fails to make the Deed Contribution to the Deed Fund and such default remains unremedied for fifteen (15) business days after notice is given by the Deed Administrators;
- (b) when the Deed Administrators lodge a notice with ASIC that the deed has been fully effectuated; or

- (c) otherwise, as provided for by the Corporations Act (especially sections 445D and 445F).

7.2 Prior to Termination

Immediately before lodging the notice with ASIC, the Deed Administrators will convene a meeting of the board of directors of the Company to remove the current directors and appoint new directors nominated by BBYAP.

8. Order that property referred to in paragraph 2 will be distributed among creditors bound by the DOCA

8.1 Order of payment from the Deed Fund.

Payment from the Deed Fund will be made in accordance with the provisions of section 556 of the Corporations Act as though the Company were in liquidation, to the extent that funds are available:

- (a) **first** - the remuneration and expenses incurred by the Administrators/Deed Administrators (to the extent to which these have not been paid), capped at an amount of \$45,000.
- (b) **second** – any creditors who would be entitled to payment in priority to unsecured creditors in the winding up including creditors entitled to the proceeds of insurance under section 562 of the Act and employees entitled to payments under section 556 of the Act.
- (c) **third** – the claims of any unsecured creditors (whose claims are admitted by the Deed Administrators) on a *pari passu* basis.

8.2 Remuneration

Subject to it being fixed in accordance with the Corporations Act (section 449E), the remuneration referred to in paragraph 8.1 will be calculated at the rates normally charged by the Deed Administrators' firm.

9. Role and powers of the Deed Administrators

- (a) The Deed Administrators will have the powers set out in paragraph 2 of Schedule 8A of the Act.
- (b) Other than as referred to in paragraph 9(a), the prescribed provisions of Schedule 8A of the Act shall not apply.
- (c) The Deed Administrators will not be personally liable for any debt they incur and shall be entitled to an indemnity from the assets of the Deed Fund.
- (d) Proofs of debt for the Deed Fund shall be lodged and dealt with and creditors meetings convened and conducted as provided for in the Corporations Act, as if the Company were in liquidation.